



VISION

WE ARE A HISTORIC PLACE



WE VALUE HEALTHY MINDS
AND HEALTHY BODIES



WE HAVE
A SPECIAL
CHARACTER



THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

WE ARE A
COMMUNITY
OF CHOICE

FOR THE
FISCAL YEARS ENDED
JUNE 30, 2014
AND 2013



WE HAVE FIRST-CLASS
GOVERNMENT

Prepared by the Department of
Financial and Management Services
James City County, Virginia

jamescitycountyva.gov/jcsa

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Comprehensive Annual Financial Report

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

Prepared by the Department of Financial
and Management Services
James City County, Virginia

INTRODUCTORY SECTION

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Table of Contents

	Page(s)
Introductory Section:	
Table of Contents	i-ii
Authority Officials	iii
Organizational Chart	iv
Letter of Transmittal	v-viii
Certificate of Achievement	ix
Financial Section:	
Independent Auditors' Report	1-2
Management's Discussion and Analysis (MD&A)	3-8
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Basic Financial Statements	13-39
Required Supplementary Information Other Than MD&A (Unaudited)	
Schedule of Funding Progress – VRS	41
Supplementary Information:	
Statements of Net Position – by Activity	43
Statements of Revenues, Expenses, and Changes in Net Position – by Activity	44
Schedule of Operating Revenues and Expenses – Budget to Actual – by Activity	45
Statistical Section:	
Statistical Section Overview	47
Financial Trends:	
Net Position	48
Changes in Revenues, Expenses and Net Position	49
Revenue Capacity:	
Water and Sewer Rates	50
Listing of Largest Utility Customers	51
Debt Capacity:	
Ratio of Outstanding Debt	52
Revenue Bond Coverage	53
Outstanding Debt for James City County	54
Demographic and Economic Information:	
County Demographic and Economic Statistics	55
Principal Employers in James City County	56
Operating Information:	
Schedule of Insurance in Force	57
Full-Time Employees by Function	58
Operating Indicators by Function	59
Capital Asset Statistics by Function	60
Summary of Historical Flows (MGD)	61
Miscellaneous Statistics	62-63
Rates and Fees	64-73

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Table of Contents

	Page(s)
Compliance Section:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	75-76

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Authority Officials

Board of Directors

James G. Kennedy
Kevin D. Onizuk
Michael J. Hipple, Sr
Mary K. Jones
John J. McGlennon

Chair
Vice-Chair

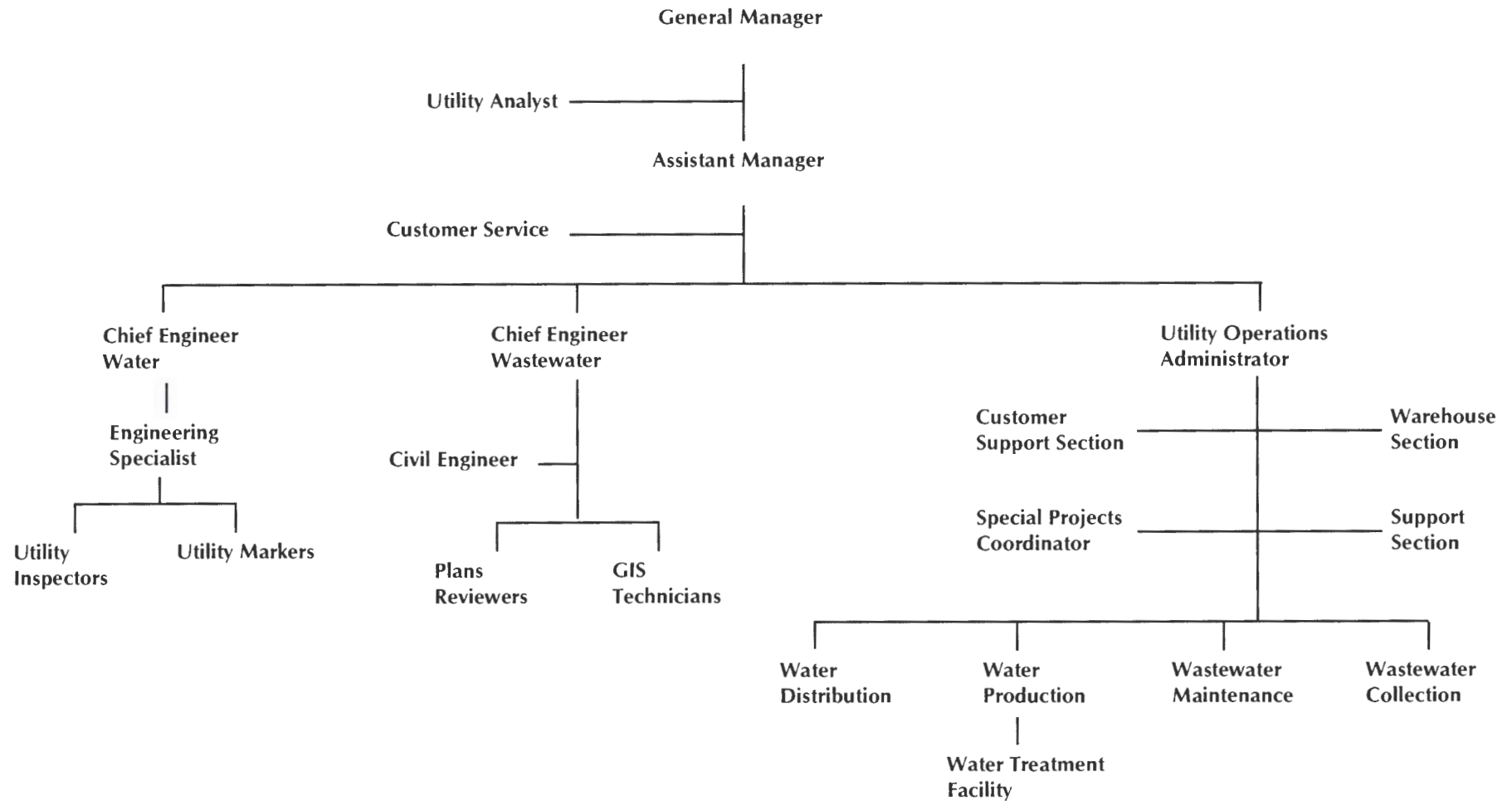
Officials

M. Douglas Powell
Stephanie A. Luton

General Manager
Assistant Manager/Treasurer

James City Service Authority Organization Chart

Effective 1/9/13





Operations Center
119 Tewning Road
Williamsburg, VA 23188-2639
P: 757-229-7421
F: 757-229-2463
jcsa@jamescitycountyva.gov

November 4, 2014

To the Citizens of James City County:

The Comprehensive Annual Financial Report of the James City Service Authority, a component unit of the County of James City, Virginia, for the fiscal years ending June 30, 2014 and 2013, is hereby submitted. This report presents the financial position of all fund types of the James City Service Authority (JCSA) and the results of operations for the years then ended.

The JCSA financial records have been audited by Dixon Hughes Goodman LLP. Their opinion and management's accompanying statements comprise the Financial Section of this report. This report was prepared by the JCSA, and responsibility for both the accuracy of the information presented and the completeness and fairness of the presentation, including all disclosures, rests with the JCSA. We believe the information as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the JCSA as measured by the financial activity of its various legal funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the JCSA's financial activity have been included. The funds included in our Comprehensive Annual Financial Report are controlled solely by the JCSA.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. JCSA's MD&A can be found immediately following the independent auditors' report on pages 3-8 of this report.

The Reporting Entity and Its Service

The James City Service Authority is a public body politic and corporate of the Commonwealth of Virginia. The JCSA was created in 1969 by the James City County Board of Supervisors pursuant to the Virginia Water and Sewer Authorities Act (Code of Virginia, 1950, as amended). The JCSA was created to acquire, construct, operate and maintain, to the extent determined by the JCSA to be financially feasible, an integrated water system and an integrated sewer collection system in James City County (County). The Board of Directors is appointed by the Board of Supervisors. Since 1976, the Board of Supervisors has appointed its members as Directors of the JCSA to more fully coordinate JCSA activities with those of the County in the planning and development of utility systems.

The Board of Supervisors has authorized water and sewer operations for the JCSA within the Primary Service Area (PSA) in the County. With the approval of the County, the JCSA has extended services beyond the PSA to several public sites in the County, including three public schools, Freedom Park and two major planned communities, Greensprings West and Governor's Land. The JCSA also provides water and/or sewer service to limited sections of York County and the City of Williamsburg with the concurrence of the appropriate governing bodies.

The JCSA's water system includes the central water system and Five Forks Water Treatment Facility with 10 water production facilities, and 7 independent water production facilities that are located outside the PSA. There are approximately 400 miles of water transmission and distribution lines throughout the entire system. The water system facilities supply approximately 4.7 million gallons of water per day to 20,858 water customers.

The JCSA's sewer system includes 76 pump stations with approximately 430 miles of sewer collection lines. The sewer system facilities collect and move approximately 5.1 million gallons of sewage per day for 22,575 sewer customers. The JCSA has no sewage treatment facilities. Sewage treatment for areas served by the JCSA, as well as for other Hampton Roads communities, is provided by the Hampton Roads Sanitation District (HRSD).

As of June 30, 2014, the JCSA had 89 full-time and 2 part-time employees with the responsibility to operate and maintain its utility facilities and lines. The JCSA's operating funds are self-supporting and the JCSA receives no share of any local or property tax levies. The Board of Directors has the sole power to set water and sewer utility rates and related fees. The Board of Directors adopted an inverted-block or inclining rate structure in 1996 to be effective for fiscal year 1997 for residential customers which incorporates a unit charge that increases with increasing consumption. The primary objective of establishing the inverted-block rate structure was to promote water conservation, particularly from large-volume residential customers. On July 1, 2008, the residential water consumption service charge was set at the first block of \$2.80 per 1,000 gallons for less than 15,000 gallons consumed per quarter, the second block was set at \$3.45 per 1,000 gallons for more than 15,000 gallons but less than 30,000 gallons consumed per quarter, and a third block was set at \$9.80 per 1,000 gallons for more than 30,000 gallons consumed per quarter. Commercial and industrial customers were set at a flat or uniform rate structure of \$3.45 per 1,000 gallons. On July 1, 2012, the sewer service charge for all categories of customers was set to \$3.22 per 1,000 gallons.

Economic Condition and Outlook

James City County is located near the cities of Hampton, Newport News and Williamsburg and the County of York. Major employers within commuting distance include Busch Gardens, Anheuser-Busch, Newport News Shipbuilding, Langley Air Force Base, Fort Eustis, Fort Monroe, Colonial Williamsburg Foundation, and the National Aeronautics and Space Administration. The County's population grew 39 percent from 2000 to 2010, while the state population increased only 13 percent during the past decade. James City County had modest growth over the past several years as the economic climate gradually improved. A historically fast-growing population and expanding commercial base enhances the long term economic outlook for the JCSA.

Major Initiatives

During fiscal year 2014, a major waterline replacement was completed in Williamsburg Landing and the majority of rehabilitation work was completed on the sewer interceptor improvement project in the Lift Station 1-5 basin (upper reaches of Powhatan Creek) along Chisel Run to Olde Towne Road near Route 60. Work began on the multi-year water meter replacement project to increase accuracy and efficiency in meter reading and leak repair using radio read meters.

In 2007, the Board of Directors authorized the JCSA to enter into a Consent Agreement with the Virginia Department of Environmental Quality (DEQ) to address sewer system overflows. Thirteen other Hampton Roads localities entered into similar agreements during the same timeframe. In February 2014, HRSD and fourteen Hampton Roads localities, including the JCSA, entered into a Regional Hybrid Consolidation Plan for meeting Consent Agreement requirements to reduce sewer overflows.

Under this Plan, HRSD is responsible for major rehabilitation projects to repair deteriorated infrastructure and projects to increase the capacity of HRSD and locality pump stations and pipelines. Projects will be designed on a regional basis. Work will be performed where it is most needed rather than in each individual sewer basin within a locality that did not meet Consent Agreement standards. This regional approach to capital construction is estimated to save approximately \$1 billion regionally compared to the cost of each locality individually fulfilling its Consent Agreement responsibilities. HRSD will fund the work through a regional HRSD rate. In addition, HRSD will also assume liability for wet weather sewer overflows due to inadequate capacity.

JCSA keeps ownership and control of its local sewer infrastructure and is still responsible for monitoring and maintaining the local sewer system to Consent Agreement standards and fixing significant defects on an ongoing basis (“find and fix”).

Accounting System and Budgetary Control

The JCSA’s accounting records are maintained on a full accrual basis incorporating the principles of enterprise fund accounting. Basically, this approach presents the statements on a profit and loss basis, including a provision for depreciation, which is comparable to private industry.

In developing and evaluating the JCSA’s accounting system, consideration is given to the adequacy of internal accounting controls. The controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and, (2) the reliability of financial records for preparing the financial statements.

All internal control evaluations occur within the above framework using the concept of reasonable assurance and recognizing: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

We believe the JCSA’s internal accounting controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

Budgetary controls are maintained to ensure compliance with the budget adopted by the Board of Directors.

Encumbrances are used to reserve a portion of the applicable appropriation for purchase orders, contracts and commitments of the JCSA.

Awards of Achievement

The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to James City Service Authority for its component unit financial report for the fiscal year ended June 30, 2013. This was the twenty-ninth year that the JCSA has received this prestigious award.

In order to be awarded a Certificate of Achievement, the JCSA must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

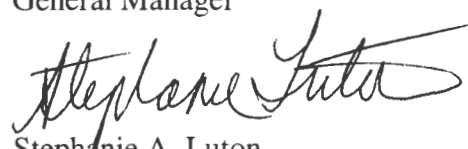
Acknowledgments

We wish to express our appreciation to the staff of the James City County Department of Financial and Management Services who participated in this preparation of the report. Also, we would like to thank the members of the Board of Directors for their continued support in the planning and implementation of the financial affairs and setting policy for water and sewer development of the JCSA.

Sincerely,



M. Douglas Powell
General Manager



Stephanie A. Luton
Assistant Manager/Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**James City Service Authority
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

This page intentionally left blank

FINANCIAL SECTION



Independent Auditors' Report

Board of Directors
James City Service Authority

We have audited the accompanying financial statements of the business-type activities of the ***James City Service Authority (the "Authority")***, a component unit of the County of James City, Virginia, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of ***James City Service Authority's*** management.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***James City Service Authority*** as of June 30, 2014 and 2013, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 3 to the financial statements, beginning net position was *restated* due to the implementation of GASB Statement 65, items Previously Reported as Assets and Liabilities, in 2014. Our opinion is not modified with respect to these changes.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 3-8 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the ***James City Service Authority's*** basic financial statements. The statements of net position – by activity, schedule of revenues, expenses, and changes in net position – by activity, and schedule of operating revenues and expenses – budget and actual – by activity are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of net position – by activity, schedule of revenues, expenses, and changes in net position – by activity, and schedule of operating revenues and expenses – budget and actual – by activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of net position – by activity, schedule of revenues, expenses, and changes in net position – by activity, and schedule of operating revenues and expenses – budget and actual – by activity are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014, on our consideration of the ***James City Service Authority's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***James City Service Authority's*** internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 4, 2014

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Management's Discussion and Analysis

June 30, 2014 and 2013

This section of the James City Service Authority's (the Authority or JCSA) comprehensive annual financial report presents management's discussion and analysis of the Authority's financial performance during fiscal years ended June 30, 2014 and 2013. The information presented in this section should be read in conjunction with the letter of transmittal on pages v-viii at the front of this report and the Authority's basic financial statements, which begin on page 10.

Financial Highlights for Fiscal Years 2014 and 2013

- The Authority's total net position was \$171,282,033 and \$172,286,084 at June 30, 2014 and 2013, respectively. Due to implementation of GASB Statement 65, the net position as of July 1, 2013 and 2012 was restated and reduced by \$489,531 and \$593,900, respectively, as a result of no longer deferring and amortizing bond issuance cost.
- The Authority's total operating expenses before depreciation and amortization increased by 1% in 2014 from 2013. This was primarily due to maintenance expenses related to the DEQ consent order. Total operating expenses before depreciation and amortization remained relatively flat and decreased very slightly in 2013 from 2012.
- The Authority's total operating revenues remained relatively flat, decreasing by 0.7% in 2014 from 2013. Total operating revenues decreased by only 0.1% in 2013 from 2012.
- Capital assets decreased by 1.6% in 2014 from 2013. This was primarily due to depreciation expense during the current year. For fiscal year 2014, there was formal acceptance of 8 new water system dedications and 8 new sewer system dedications. In addition, capital assets decreased by 1.6% in 2013 from 2012. This was primarily due to depreciation. For fiscal year 2013, there was formal acceptance of 9 new water system dedications and 11 new sewer system dedications.

Overview of the Financial Statements

The Comprehensive Annual Financial Report consists of three sections: introductory, financial and statistical. The financial section includes the basic financial statements, which are comprised of the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Transactions are accounted for under the economic resources measurement focus and the accrual basis of accounting similar to an enterprise fund. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. Enterprise funds are used to account for activities that are financed and operated similar to those often found in the private sector.

The *statements of net position* present information on the Authority's assets and liabilities as of June 30, 2014 and 2013, with the difference between the two reported as net position.

The *statements of revenues, expenses, and changes in net position* present information showing how the Authority's net position changed in fiscal year 2014 and 2013. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Management's Discussion and Analysis

June 30, 2014 and 2013

The *statements of cash flows* supplement the above two statements by presenting the changes in cash position as a result of the Authority's activities over the last two years.

Notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 39.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. The required supplementary information can be found on page 41.

Financial Analysis

Net position is a financial measure that compares an entity's assets and deferred outflows of resources to its liabilities and deferred inflows of resources. Over time, increases and decreases in net position are one indicator of whether the Authority's financial health is improving or deteriorating. However, it is also important to consider other nonfinancial factors, such as changes in economic conditions, industry trends, population and service area growth, and new or changed legislation. The Authority's net position decreased by \$1,004,051 in 2014 from 2013. This was a result of a decline in water demand, a major waterline repair funded from reserves as authorized by the Board of Directors, and a decrease in the number and value of water and sewer system dedications. The Authority's net position decreased by \$1,569,718 in 2013 from 2012. This was primarily a result of a reduction in investments used to pay off the 2003 series revenue bonds. There were also fewer water and sewer system dedications in 2013 than in 2012.

Condensed Statements of Net Position Information at June 30

	2014	2013 (as restated)	2012 (as restated)
Current and other assets	\$ 35,614,226	35,484,446	41,879,355
Capital assets	162,582,955	165,151,206	167,810,314
Total assets	<u>\$ 198,197,181</u>	<u>200,635,652</u>	<u>209,689,669</u>
Current liabilities	\$ 2,466,259	3,383,213	4,201,623
Noncurrent liabilities	24,448,889	24,966,355	31,632,244
Total liabilities	<u>26,915,148</u>	<u>28,349,568</u>	<u>35,833,867</u>
Net position:			
Net investment in capital assets	137,922,955	139,966,206	134,872,139
Restricted for capital projects	2,601,160	2,620,384	4,876,760
Unrestricted	30,757,918	29,699,494	34,106,903
Total net position	<u>171,282,033</u>	<u>172,286,084</u>	<u>173,855,802</u>
Total liabilities and net position	<u>\$ 198,197,181</u>	<u>200,635,652</u>	<u>209,689,669</u>

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Management's Discussion and Analysis

June 30, 2014 and 2013

The largest portion of the Authority's net position at June 30, 2014 (80.5%) reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted portion of net position at June 30, 2014 (18.0%) may be used to meet the Authority's ongoing obligations.

The change in net position can also be determined by reviewing the following condensed statements of revenues, expenses, and changes in net position information.

Condensed Statements of Revenues, Expenses, and Changes in Net Position Information
Years ended June 30

	2014	2013 (as restated)	2012 (as restated)
Water and sewer services	\$ 11,825,702	12,002,533	11,718,297
Reimbursement for storm costs	900	-	349,541
Other	504,252	420,265	369,373
Total operating revenues	<u>12,330,854</u>	<u>12,422,798</u>	<u>12,437,211</u>
Salaries	4,288,721	4,306,155	4,144,696
Fringe benefits	1,646,148	1,636,038	1,584,707
Operating supplies	882,253	822,882	899,095
Maintenance of buildings and equipment	3,501,598	3,364,910	3,065,512
Utilities	875,020	862,665	917,498
Contractual fees	836,634	910,491	882,505
Storm costs	-	-	359,921
Other	496,851	504,573	560,671
Depreciation and amortization	7,670,391	7,619,431	7,469,016
Total expenses	<u>20,197,616</u>	<u>20,027,145</u>	<u>19,883,621</u>
Facility charges	4,305,728	3,868,654	3,165,330
Investment income (loss)	267,061	(1,249,111)	351,929
Gain (loss) on disposal of capital assets	15,352	(44,507)	21,285
Interest, net	(1,114,130)	(1,141,052)	(1,478,060)
Total nonoperating revenues	<u>3,474,011</u>	<u>1,433,884</u>	<u>2,060,484</u>
Loss before capital contributions	(4,392,751)	(6,170,363)	(5,385,926)
Capital contributions	3,388,700	4,600,645	5,395,362
Change in net position	<u>(1,004,051)</u>	<u>(1,569,718)</u>	<u>9,436</u>
Net position, beginning of year	172,286,084	173,855,802	173,865,238
Net position, end of year	<u>\$ 171,282,033</u>	<u>172,286,084</u>	<u>173,855,802</u>

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Management's Discussion and Analysis

June 30, 2014 and 2013

In fiscal year 2014, water and sewer service revenue decreased by 1.5% over 2013. This was primarily a result of a decline in water demand during the current year. The Authority received \$57,446 in proffers from developers to fund capital improvements, which was \$44,084 more than what was received during 2013. There was an increase in the facility charges collected during 2014. New water connections decreased to 359 in 2014 from 448 in 2013 and new sewer connections decreased to 261 in 2014 from 347 in 2013.

In fiscal year 2013, water and sewer service revenue increased by 2.4% over 2012. However, this was less than the adopted budget by \$1,029,681 due to increased rainfall in the second half of the fiscal year. The Authority received \$13,362 in proffers from developers to fund capital improvements, which was \$13,605 less than what was received during 2012. There was an increase in the facility charges collected during 2013. New water connections increased to 448 in 2013 from 351 in 2012 and new sewer connections increased to 347 in 2013 from 296 in 2012. The nonoperating revenues decreased in 2013 due to the payoff of the 2003 series revenue bonds in January 2013. Upon issuance of the bonds, there was a municipal bond debt service insurance policy that was opened and held in the debt service reserve account. Once the bonds were paid off, this was eliminated.

Capital Assets

At the end of fiscal year 2014, the Authority had invested \$162,582,955 (net of accumulated depreciation) in a broad range of capital assets, including land and land improvements, water and sewer systems, office fixtures and equipment, and automotive equipment. This amount represents a 1.6% net decrease from last year, which was primarily the result of depreciation expense during fiscal year 2014. During the current fiscal year, construction in progress increased by 242%. This increase was primarily a result of a substantial rehab project at Lift Station 1-5, which is expected to be completed in August 2014.

At the end of fiscal year 2013, the Authority had invested \$165,151,206 (net of accumulated depreciation) in capital assets. This was a 1.6% decrease from 2012, which was primarily the result of depreciation expense during fiscal year 2013. Construction in progress decreased by 14.3% in 2013 from 2012. This decrease was primarily a result of completing the Ironbound water main. Preliminary design work was completed for the Mirror Lakes Dam mitigation in fiscal year 2013.

Further information related to the Authority's capital assets can be found in Note 3 on pages 22-23. The table on the following page summarizes the Authority's assets at June 30, 2014, 2013, and 2012:

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Management's Discussion and Analysis

June 30, 2014 and 2013

	2014	2013	2012
Utility plant:			
Land	\$ 962,995	962,695	962,695
Water and sewer systems	237,026,604	233,407,744	228,822,869
Total utility plant	<u>237,989,599</u>	<u>234,370,439</u>	<u>229,785,564</u>
Nonutility plant:			
Land	1,750,391	1,750,391	1,750,391
Central shop	4,884,119	4,860,309	4,817,690
Office fixtures and equipment	1,696,932	1,669,073	1,482,163
Land improvements	13,183	13,183	13,183
Automotive equipment	2,349,927	2,411,512	2,373,459
Total nonutility plant	<u>10,694,552</u>	<u>10,704,468</u>	<u>10,436,886</u>
Intangible assets:			
Easements	4,570	4,570	4,570
Water rights	25,000,000	25,000,000	25,000,000
Total intangible assets	<u>25,004,570</u>	<u>25,004,570</u>	<u>25,004,570</u>
Construction in progress	1,748,620	510,598	595,777
Less accumulated depreciation and amortization	112,854,386	105,438,869	98,012,483
Net capital assets	<u>\$ 162,582,955</u>	<u>165,151,206</u>	<u>167,810,314</u>

Debt Administration

At the close of the current fiscal year, the Authority's total outstanding bonded debt was \$24,660,000 (before premiums). At the close of the fiscal year 2013, the Authority's total outstanding debt was \$25,185,000 (before premiums). During fiscal year 2012, both Standard & Poor's and Moody's Investors Service affirmed their ratings of AA+ and Aa2, respectively, for the Authority's outstanding bonded debt.

In August 2008, the Authority issued revenue bonds totaling \$27,120,000 to finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source. The Authority also experienced an upgrade to their bond rating to AA+ by Standard & Poor's and Aa3 by Moody's Investors Service. Standard & Poor's issues ratings ranging from AAA to D to designate the relative investment qualities of bonds. Moody's issues ratings ranging from Aaa to C to designate the relative investment qualities of bonds.

In January 2013, the Authority paid off revenue bonds that were issued in 2003 in the amount of \$14,650,000 and had an outstanding balance of \$7,005,000. The bonds were issued to finance a groundwater treatment facility, wells, and water transmission lines and to provide for the costs of issuing the bonds and funding any necessary reserves. The revenue bonds had been rated Aaa from Moody's and AAA from Standard & Poor's rating services, based on the municipal bond insurance policy by the Insurer. For further information on the Authority's outstanding debt, see Note 5 on pages 24-25.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Management's Discussion and Analysis

June 30, 2014 and 2013

Economic Factors and Next Year Budgets and Rates

During the current fiscal year, the unrestricted net position increased by \$1,058,424 to approximately \$30.8 million from 2013. The Authority did not appropriate any of this for spending as part of the fiscal year 2015 budget.

The JCSA's budget consists of five separate funds: Administration, Water, Sewer, Capital Improvements Program and Debt Service. The administrative fund allocation is expected to increase by 3.6% in fiscal year 2015 from the 2014 budget, which is primarily a result of an increase in health insurance premiums. Capital equipment outlay includes five vehicle replacements.

Overall, the portion of the budget for water operations is projected to decrease by 9.5% in fiscal year 2015 from the 2014 budget. There is a projected decrease in the water service charges due to declining per capita daily water demand. Investment income is expected to decrease due to current market conditions and continued conservative expectations for investment returns over the next year. Direct expenses are budgeted to increase by 6.3%, which is primarily due to equipment maintenance, increased sampling to meet regulatory requirements, a rate study and health insurance premiums. Capital equipment outlay includes two vehicle replacements.

Overall, the fiscal year 2015 sewer operating budget is projected to decrease by 4.5% in fiscal year 2015 from the 2014 budget. The sewer service charges are expected to decrease due to declining per capita daily water demand. Sewer service charges are based on the same meter readings used to calculate water charges. Direct expenses are budgeted to increase by 7.3%, which is primarily due to a rate study and health insurance premiums. Capital equipment outlay includes two vehicle replacements.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the James City County Department of Financial and Management Services, 101-F Mounts Bay Road, P.O. Box 8784, Williamsburg, Virginia 23187-8784.

BASIC FINANCIAL STATEMENTS

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Exhibit 1

Statements of Net Position

June 30, 2014 and 2013

Assets	2014	2013 (as restated)
Current assets:		
Cash and cash equivalents (note 2)	\$ 586,970	666,123
Investments (note 2)	28,955,675	28,596,424
Accounts receivable, customers	2,421,307	2,530,817
Accounts receivable, other	86,623	88,940
Note receivable (note 12)	60,994	86,585
Interest receivable	81,297	91,217
Inventories	820,200	803,956
Total current assets	<u>33,013,066</u>	<u>32,864,062</u>
Noncurrent assets:		
Capital assets (note 3):		
Utility plant:		
Land	962,995	962,695
Water and sewer systems	237,026,604	233,407,744
Total utility plant	<u>237,989,599</u>	<u>234,370,439</u>
Nonutility property:		
Land	1,750,391	1,750,391
Central shop	4,884,119	4,860,309
Office fixtures and equipment	1,696,932	1,669,073
Land improvements	13,183	13,183
Automotive equipment	2,349,927	2,411,512
Total nonutility property	<u>10,694,552</u>	<u>10,704,468</u>
Intangible assets:		
Easements	4,570	4,570
Water rights	25,000,000	25,000,000
Total intangible assets	<u>25,004,570</u>	<u>25,004,570</u>
Construction in progress (note 11)	<u>1,748,620</u>	<u>510,598</u>
Less accumulated depreciation and amortization	<u>112,854,386</u>	<u>105,438,869</u>
Net capital assets	<u>162,582,955</u>	<u>165,151,206</u>
Investments restricted for future use (note 2)	<u>2,601,160</u>	<u>2,620,384</u>
Total noncurrent assets	<u>165,184,115</u>	<u>167,771,590</u>
Total assets	<u>\$ 198,197,181</u>	<u>200,635,652</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable, trade	\$ 468,429	786,477
Accrued salaries	27,647	13,258
Compensated absences, current portion (notes 5 and 6)	280,435	305,833
Due to James City County (note 10)	455,495	1,078,608
Deposits	184,406	160,764
Interest payable	504,847	513,273
Current portion of bonds payable, including unamortized premium (note 5)	545,000	525,000
Total current liabilities	<u>2,466,259</u>	<u>3,383,213</u>
Noncurrent liabilities:		
Advances for construction (note 4)	32,902	32,902
OPEB liability (note 8)	207,509	171,509
Compensated absences, net of current portion (notes 5 and 6)	93,478	101,944
Bonds payable, including unamortized premium, net of current portion (note 5)	24,115,000	24,660,000
Total noncurrent liabilities	<u>24,448,889</u>	<u>24,966,355</u>
Total liabilities	<u>26,915,148</u>	<u>28,349,568</u>
Net position:		
Net investment in capital assets	137,922,955	139,966,206
Restricted for capital projects	2,601,160	2,620,384
Unrestricted	30,757,918	29,699,494
Total net position	<u>171,282,033</u>	<u>172,286,084</u>
Total liabilities and net position	<u>\$ 198,197,181</u>	<u>200,635,652</u>

See accompanying notes to basic financial statements.

Exhibit 2

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>(as restated)</u>
Operating revenues:		
Water and sewer services	\$ 11,825,702	12,002,533
Water supply proffers	57,446	13,362
Rental income (note 10)	160,914	164,875
Reimbursement for storm costs	900	—
Other	285,892	242,028
Total operating revenues	<u>12,330,854</u>	<u>12,422,798</u>
Operating expenses:		
Salaries (note 6)	4,288,721	4,306,155
Fringe benefits (note 6)	1,646,148	1,636,038
Operating supplies	882,253	822,882
Maintenance of buildings and equipment	3,501,598	3,364,910
Utilities	875,020	862,665
Contractual fees (note 10)	836,634	910,491
Other	496,851	504,573
Total operating expenses	<u>12,527,225</u>	<u>12,407,714</u>
Operating income (loss) before depreciation and amortization	(196,371)	15,084
Depreciation and amortization	<u>7,670,391</u>	<u>7,619,431</u>
Operating loss	<u>(7,866,762)</u>	<u>(7,604,347)</u>
Nonoperating revenues (expenses):		
Facility charges	4,305,728	3,868,654
Investment income (loss)	267,061	(1,249,111)
Gain (loss) on disposal of capital assets	15,352	(44,507)
Interest, net	(1,114,130)	(1,141,052)
Net nonoperating revenues	<u>3,474,011</u>	<u>1,433,984</u>
Loss before capital contributions	<u>(4,392,751)</u>	<u>(6,170,363)</u>
Capital asset contributions	<u>3,388,700</u>	<u>4,600,645</u>
Changes in net position	<u>(1,004,051)</u>	<u>(1,569,718)</u>
Net position at beginning of year	<u>172,286,084</u>	<u>173,855,802</u>
Net position at end of year	<u>\$ 171,282,033</u>	<u>172,286,084</u>

See accompanying notes to basic financial statements.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Statements of Cash Flows
Years ended June 30, 2014 and 2013

	2014	2013 (as restated)
Cash flows from operating activities:		
Cash received from customers	\$ 11,958,854	11,970,950
Other cash receipts	533,060	639,438
Cash payments to suppliers for goods and services	(7,549,761)	(6,144,073)
Cash payments for personnel services	(5,918,344)	(5,902,214)
Facility charges	4,305,728	3,868,654
Net cash provided by operating activities	<u>3,329,537</u>	<u>4,432,755</u>
Cash flows from capital and related financing activities:		
Payments of debt	(525,000)	(7,515,000)
Interest paid	(1,122,556)	(1,546,050)
Acquisition and construction of capital assets	(1,724,640)	(415,385)
Proceeds from sale of capital assets	26,552	11,200
Net cash used in capital and related financing activities	<u>(3,345,644)</u>	<u>(9,465,235)</u>
Cash flows from investing activities:		
Purchases of investments	(28,479,458)	(32,575,533)
Proceeds from sale of investments	28,139,431	37,440,133
Interest received	276,981	134,979
Net cash provided (used) by investing activities	<u>(63,046)</u>	<u>4,999,579</u>
Decrease in cash and cash equivalents	(79,153)	(32,901)
Cash and cash equivalents at beginning of year	666,123	699,024
Cash and cash equivalents at end of year	<u>\$ 586,970</u>	<u>666,123</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (7,866,762)	(7,604,347)
Adjustments to reconcile operating loss to cash provided by operating activities:		
Depreciation and amortization	7,670,391	7,619,431
Facility charges	4,305,728	3,868,654
Change in operating assets and liabilities:		
Accounts receivable, customers	109,510	(59,230)
Accounts receivable, other	2,317	197,022
Notes receivable	25,591	32,066
Inventories	(16,244)	(56,540)
Accounts payable, trade	(318,048)	534,467
Accrued salaries	(19,475)	18,979
Due to James City County	(623,113)	(156,479)
Deposits	23,642	27,647
Deferred liability	—	(9,915)
OPEB liability	36,000	21,000
Total adjustments	<u>11,196,299</u>	<u>12,037,102</u>
Net cash provided by operating activities	<u>\$ 3,329,537</u>	<u>4,432,755</u>
Supplemental schedules:		
Noncash capital activities:		
Capital asset contributions	<u>\$ 3,388,700</u>	<u>4,600,645</u>
Noncash investing activity:		
Unrealized loss from change in fair value of investments	<u>\$ (159,609)</u>	<u>(103,016)</u>

See accompanying notes to basic financial statements.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

1) Organization and Summary of Significant Accounting Policies

The James City Service Authority (the Authority) was established on June 30, 1969, by resolution of the Board of Supervisors of James City County, Virginia (the County, or Primary Government), and was chartered by the Commonwealth of Virginia, State Corporation Commission in July 1969 to provide water and sewer service to County residents as permitted under the Code of Virginia (1950), as amended (the Enabling Act).

The Enabling Act authorizes the Authority, among other things, to: a) acquire, construct, improve, extend, operate, and maintain any water, sewer, sewage disposal, or garbage/refuse collection and disposal system; b) issue revenue bonds of the Authority, payable solely from revenues, to pay all or any part of the cost of such systems; c) fix, revise, charge, and collect rates, fees, and charges for the use of and for the services furnished or to be furnished by any system operated by the Authority; and d) enter into contracts with the Commonwealth of Virginia, or with any municipality, county, corporation, individual, or any public authority or unit thereof, relating to the services and facilities of any such system of the Authority. Further, the Enabling Act provides that the Authority is subject in all respects to the jurisdiction of the Department of Environmental Quality – Water Division (DEQ), formerly the State Water Control Board of the Commonwealth of Virginia, under the provision of the State Water Control Law.

The Authority's governing body is appointed by the County's Board of Supervisors, although the Authority is legally separate. The County's Board of Supervisors is the appointed Board of Directors of the Authority.

The County can impose its will over the Authority, significantly influencing the programs, projects, activities, or levels of service. Although a financial benefit or burden relationship may not exist, the County is financially accountable. The Authority is accounted for as a proprietary fund and its financial statements have been blended with the County's financial statements for reporting purposes.

(a) Basis of Accounting and Presentation

The Authority prepares its financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority, which reports its financial statements similar to an enterprise fund, has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority uses the economic resources management focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets. The Authority generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Authority may defer the use of restricted assets based on a review of the specific transaction.

The Authority's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's*

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

Discussion and Analysis – For State and Local Governments. Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. The basic financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements.

(b) Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near the maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, the Authority considers investments with original maturities of three months or less to be cash equivalents.

(c) Investments

All investments of the Authority are stated at fair value as of June 30, 2014 and 2013, in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

(d) Inventories

Inventories are valued at cost and are charged against operations on an average cost basis. They consist of water meters, pipes, and parts required to repair the utility systems.

(e) Capital Assets

All direct costs of water and sewer transmission facilities constructed are capitalized. In addition, interest and amortization of bond and trustee expense, where applicable, are capitalized during the period of construction. Interest expense is reduced to the extent of any interest income earned on investment of bond proceeds. Nonutility property is capitalized at cost.

The Authority's policy is to capitalize capital assets with a cost or fair value at the date of donation of five thousand dollars (\$5,000) or greater. The cost of major improvements is capitalized, while the cost of maintenance and repairs, which does not improve or extend the life of an asset, is expensed. The Authority provides for depreciation of capital assets using the straight-line method at amounts estimated to amortize the cost or basis of the assets over their estimated useful lives, as follows:

Sewer systems	40 years
Water systems	30 years
Equipment and other	3-40 years

The Authority has easements and water rights that are considered intangible assets. The water rights are related to an agreement the Authority has with the City of Newport News to purchase and treat water to meet long-term water supply needs. These water rights are amortized using the straight-line depreciation method over the life of the agreement. More information on this agreement can be found in note 11.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

When capital assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the accompanying statements of revenues, expenses, and changes in net position.

(f) Unbilled Revenue

The Authority records the amount of accrued but unbilled revenue by prorating actual subsequent billings. Amounts accrued but unbilled were approximately \$1,072,000 and \$1,116,000 at June 30, 2014 and 2013, respectively.

(g) Allowance for Uncollectible Accounts

The Authority has few uncollectible receivables and does not use an allowance account. State law permits filing of liens against real property for unpaid utility charges. The write-off of bad debts only occurs when the property is sold prior to the lien process being instituted.

(h) Budgetary Policy

Although a budget is not legally required to be adopted, a fiscal year budget is prepared on a modified accrual basis for management and fiscal planning purposes. Any changes to the adopted budget require Board approval. Appropriations lapse at the end of the fiscal year with the exception of capital projects which continue until completed. For the year ended June 30, 2014, there were \$534,033 in supplemental appropriations for capital projects, including an emergent waterline replacement and various grants. At June 30, 2013, there were \$129,800 in supplemental appropriations for an employee bonus and various grants.

(i) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. Property, liability and worker's compensation coverages are provided through a self insurance pool. The Authority's retention is through deductibles. Deductibles and coverage limits at June 30, 2014 are as follows:

	<u>Deductibles</u>
Property	\$ 10,000
Inland marine	1,000
Flood	25,000
Earthquake	25,000
General liability and law enforcement	100,000
Automobile:	
Liability	100,000
Comprehensive	1,000
Collision	1,000
Crime	250
Worker's compensation	None

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

	<u>Liability coverage limits</u>
Property insurance:	
Valuation at functional replacement	\$ 56,698,184
Flood (outside 100 year flood plain)	56,698,184
Business interruption/extra expense	3,000,000
Property in transit	5,000,000
Increased cost of construction/ordinance demolition	20,000,000
Back-up of sewers and drains	1,000,000
Debris removal	20,000,000
Pollutant clean-up and removal	500,000
Off premises power failure	2,000,000
Media reproduction	100,000
Newly acquired locations for up to 120 days	20,000,000
General liability and law enforcement	9,000,000
Automobile liability	9,000,000
Public officials	9,000,000
Crime	500,000
Worker's compensation	Statutory limits

There have been no reductions in insurance coverages from the prior year, and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

(j) Bond Premiums and Discounts

Bond premiums and discounts are deferred and amortized over the terms of the related issues on a straight-line basis, which approximates the effective interest method.

(k) Operating and Nonoperating Revenue and Expenses Recognition

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing water and sewer services. Revenues and expenses not meeting the operating definition are reported as nonoperating. These consist mainly of water and sewer facility charges, investment income, interest expense, and gain or loss on disposal of capital assets.

(l) Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

(m) *New Accounting Principles*

Effective with the financial statements for the fiscal year ended June 30, 2014, the Authority has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement amends prior reporting requirements by (i) reclassifying certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and (ii) recognizing certain items previously reported as assets and liabilities as expenses or revenues based on the definitions of those elements in GASB Concepts Statement No. 4, *Elements of Financial Statements*. During fiscal year 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The items of the balance sheet are classified as assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position. GASB Statement No. 65 was implemented retroactively, and as a result of implementation, the Authority has restated the beginning net position, effectively decreasing net position as of July 1, 2013 and 2012 by \$489,531 and \$593,900, respectively. The decrease results from no longer deferring and amortizing bond issuance cost.

(n) *Subsequent Events*

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through November 4, 2014, the date the financial statements were available to be issued.

2) Cash and Cash Equivalents and Investments

(a) *Deposits*

At June 30, 2014 and 2013, the carrying values of the Authority's deposits with banks and savings institutions were \$586,970 and \$666,123, respectively, and the bank balances were \$1,027,721 and \$994,685, respectively. The differences between the carrying values of bank deposits and the bank balances are primarily due to outstanding checks and deposits in transit. The bank balances are fully covered by the Federal Depositary Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act), which is considered to be insured. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits.

If any member financial institution fails, the entire collateral pool becomes available to satisfy claims of the Authority. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks) of the pool. Therefore, these deposits are considered collateralized and as a result, are considered insured.

The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

(b) Investments

		Fair value	Investment maturity (in years)		
			Less than 1	1-2	2-7
2014:					
Money market funds	\$	2,481,272	2,481,272	-	-
Certificate of deposit		3,944,641	1,276,657	1,973,323	694,661
Corporate notes		4,292,472	-	-	4,292,472
Federal agency bonds/notes		2,901,557	-	-	2,901,557
Municipal bonds		300,048	-	-	300,048
U.S. Treasury notes		17,636,845	-	4,547,150	13,089,695
Total	\$	<u>31,556,835</u>	<u>3,757,929</u>	<u>6,520,473</u>	<u>21,278,433</u>

		Fair value	Investment maturity (in years)		
			Less than 1	1-2	2-7
2013:					
Money market funds	\$	2,502,981	2,502,981	-	-
Certificate of deposit		2,991,339	800,336	2,073,600	117,403
Corporate notes		3,874,762	-	-	3,874,762
Federal agency bonds/notes		8,000,844	-	648,879	7,351,965
Municipal bonds		759,422	-	-	759,422
U.S. Treasury notes		13,087,460	-	-	13,087,460
Total	\$	<u>31,216,808</u>	<u>3,303,317</u>	<u>2,722,479</u>	<u>25,191,012</u>

(c) Investment Policy

In accordance with the Code of Virginia and other applicable laws, including regulations, the Authority's Investment Policy (the Policy) permits investments in U.S. government obligations, municipal obligations, prime quality commercial paper, and certain corporate notes, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). The fair value of the Authority's position in the LGIP is the same as the value of the pool shares. The Treasury Board of the Commonwealth of Virginia has regulatory oversight of the LGIP. The JCSA Board of Directors adopted an updated Investment Policy on March 26, 2013.

The Policy establishes limitations on the holdings of non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is presented on the following page.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

Registered money market mutual funds	50% maximum
Commonwealth of Virginia LGIP	50% maximum
Repurchase agreements	50% maximum
Bankers' acceptances	35% maximum
Commercial paper	35% maximum
Negotiable certificates of deposit/bank notes	20% maximum
Municipal obligations	20% maximum
Corporate notes	20% maximum
Bank deposits	35% maximum

The combined amount of bankers' acceptances, commercial paper, and corporate notes shall not exceed fifty percent (50%) of the total book value of the portfolio at the date of acquisition.

(d) Credit Risk

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than A-1 (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, Fitch Investor's Service, and Duff and Phelps. Corporate notes must have a minimum of Aa long-term debt rating by Moody's Investors Service and a minimum of AA long-term debt rating by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least A-1 by Standard & Poor's and P-1 by Moody's Investors Service. Notes having a maturity of greater than one year must be rated AA by Standard & Poor's and Aa by Moody's Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances, or money market mutual funds, the Authority has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 2014 and 2013, the Authority's investments were rated by Standard & Poor's and the ratings are listed on the following page using the Standard & Poor's rating scale:

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

		Investment ratings					
		AAA	AA+	AA	AA-	A-1+	A-1
2014:							
Certificate of deposit	\$	-	-	-	574,773	1,973,323	1,276,657
Corporate notes		735,770	851,689	1,390,229	1,314,784	-	-
Federal agency bonds/notes		-	2,901,557	-	-	-	-
Municipal bonds		-	300,048	-	-	-	-
U.S. Treasury notes		-	17,636,845	-	-	-	-
Total	\$	735,770	21,690,139	1,390,229	1,889,557	1,973,323	1,276,657

		Investment ratings					
		AAA	AA+	AA	AA-	A-1+	A-1
2013:							
Certificate of deposit	\$	-	-	-	696,618	2,177,318	-
Corporate notes		-	1,482,664	533,174	1,858,924	-	-
Federal agency bonds/notes		-	8,000,844	-	-	-	-
Municipal bonds		-	-	759,422	-	-	-
U.S. Treasury notes		-	13,087,460	-	-	-	-
Total	\$	-	22,570,968	1,292,596	2,555,542	2,177,318	-

Money market funds of \$2,481,272 and \$2,502,981, respectively, for 2014 and 2013, and a portion of certificate of deposit totaling \$119,888 and \$117,403 for 2014 and 2013, respectively, are unrated; therefore, they are not included in the information presented above.

(e) Concentration of Credit Risk

The Policy establishes guidelines on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority's portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Each money market mutual fund	50% maximum
Each federal agency	35% maximum
Each federal agency mortgage-backed security	10% maximum
Each repurchase agreement counterparty	25% maximum
Commonwealth of Virginia LGIP	50% maximum
Bank deposits	35% maximum

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

At June 30, 2014 and 2013, the portions of the Authority's portfolio that exceeded 5% of the total portfolio are presented below:

<u>Issuer</u>	<u>% of portfolio</u>
2014:	
U.S. Treasury	60.8%
2013:	
<u>Issuer</u>	<u>% of portfolio</u>
U.S. Treasury	45.4%
Federal National Mortgage Association	12.0
Federal Home Loan Mortgage Corporation	15.8

(f) Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the Policy limits the investment of short-term operating funds to an average weighted maturity of no more than 180 days, with a portion of the portfolio continuously invested in readily available funds. The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than five years from the date of purchase. To control the volatility of the core portfolio, the Authority will determine a duration target, not to exceed three years.

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities, so long as the maturity does not exceed the expected disbursement date of those funds.

(g) Custodial Credit Risk

The Policy requires that all investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by the Authority or by a third-party custodial agent who may not otherwise be a counter party to the investment transaction. As of June 30, 2014 and 2013, all of the Authority's investments were held in a bank's trust department in the name of James City Service Authority.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

3) Capital Assets

The following is a summary of changes in capital assets for the fiscal years ended June 30, 2014 and 2013:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Capital assets not being depreciated:				
Utility plant:				
Land	\$ 962,695	300	-	962,995
Nonutility plant:				
Land	1,750,391	-	-	1,750,391
Land improvements	13,183	-	-	13,183
Construction in progress	510,598	3,769,171	2,531,149	1,748,620
Intangible assets-easements	4,570	-	-	4,570
Total capital assets not being depreciated	<u>3,241,437</u>	<u>3,769,471</u>	<u>2,531,149</u>	<u>4,479,759</u>
Other capital assets:				
Utility plant:				
Water and sewer systems	233,407,744	3,618,860	-	237,026,604
Nonutility plant:				
Central shop	4,860,309	23,810	-	4,884,119
Office fixtures and equipment	1,669,073	84,562	56,703	1,696,932
Automotive equipment	2,411,512	147,787	209,372	2,349,927
Intangible assets – water rights	25,000,000	-	-	25,000,000
Total other capital assets	<u>267,348,638</u>	<u>3,875,019</u>	<u>266,075</u>	<u>270,957,582</u>
Less accumulated depreciation and amortization for:				
Water and sewer systems	98,790,781	6,604,410	-	105,395,191
Central shop	1,235,028	142,582	-	1,377,610
Office fixtures and equipment	944,232	112,475	56,371	1,000,336
Automotive equipment	1,861,466	197,427	198,503	1,860,390
Intangible assets – water rights	2,607,362	613,497	-	3,220,859
Total accumulated depreciation and amortization	<u>105,438,869</u>	<u>7,670,391</u>	<u>254,874</u>	<u>112,854,386</u>
Other capital assets, net	<u>161,909,769</u>	<u>(3,795,372)</u>	<u>11,201</u>	<u>158,103,196</u>
	<u>\$ 165,151,206</u>	<u>(25,901)</u>	<u>2,542,350</u>	<u>162,582,955</u>

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Utility plant:				
Land	\$ 962,695	-	-	962,695
Nonutility plant:				
Land	1,750,391	-	-	1,750,391
Land improvements	13,183	-	-	13,183
Construction in progress	595,777	2,109,411	2,194,590	510,598
Intangible assets-easements	4,570	-	-	4,570
Total capital assets not being depreciated	<u>3,326,616</u>	<u>2,109,411</u>	<u>2,194,590</u>	<u>3,241,437</u>
Other capital assets:				
Utility plant:				
Water and sewer systems	228,822,869	4,782,177	197,302	233,407,744
Nonutility plant:				
Central shop	4,817,690	95,169	52,550	4,860,309
Office fixtures and equipment	1,482,163	256,340	69,430	1,669,073
Automotive equipment	2,373,459	126,540	88,487	2,411,512
Intangible assets – water rights	25,000,000	-	-	25,000,000
Total other capital assets	<u>262,496,181</u>	<u>5,260,226</u>	<u>407,769</u>	<u>267,348,638</u>
Less accumulated depreciation and amortization for:				
Water and sewer systems	92,312,997	6,516,069	38,285	98,790,781
Central shop	1,105,014	140,524	10,510	1,235,028
Office fixtures and equipment	840,994	159,001	55,763	944,232
Automotive equipment	1,759,613	190,340	88,487	1,861,466
Intangible assets – water rights	1,993,865	613,497	-	2,607,362
Total accumulated depreciation and amortization	<u>98,012,483</u>	<u>7,619,431</u>	<u>193,045</u>	<u>105,438,869</u>
Other capital assets, net	<u>164,483,698</u>	<u>(2,359,205)</u>	<u>214,724</u>	<u>161,909,769</u>
	<u>\$ 167,810,314</u>	<u>(249,794)</u>	<u>2,409,314</u>	<u>165,151,206</u>

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

4) Advances for Construction

Advances for construction consist of two separate agreement types. Funds can be advanced by developers for the construction of specific facilities. These agreements call for rebates, up to the amount advanced, and have no expiration date. Developers can also construct a facility, dedicate it to the Authority, and receive rebates up to the cost of the facility for up to 10 years. The Authority no longer enters into these types of agreements. As of June 30, 2014 and 2013, advances for construction consisted of:

Funds advanced	\$	27,380
Facilities constructed		<u>5,522</u>
	\$	<u>32,902</u>

5) Long-Term Debt

A summary of the Authority's long-term debt activity for the fiscal years ended June 30, 2014 and 2013 is presented as follows:

	Amounts payable at July 1, 2013	Increases	Decreases	Amounts payable at June 30, 2014	Amounts due within one year
Revenue bonds	\$ 25,185,000	-	525,000	24,660,000	545,000
Compensated absences	<u>407,777</u>	<u>450,179</u>	<u>484,043</u>	<u>373,913</u>	<u>280,435</u>
Total	\$ <u>25,592,777</u>	<u>450,179</u>	<u>1,009,043</u>	<u>25,033,913</u>	<u>825,435</u>

	Amounts payable at July 1, 2012	Increases	Decreases	Amounts payable at June 30, 2013	Amounts due within one year
Revenue bonds	\$ 32,700,000	-	7,515,000	25,185,000	525,000
Deferred amounts –					
Add bond premium	238,175	-	238,175	-	-
Compensated absences	<u>387,129</u>	<u>453,022</u>	<u>432,374</u>	<u>407,777</u>	<u>305,833</u>
Total	\$ <u>33,325,304</u>	<u>453,022</u>	<u>8,185,549</u>	<u>25,592,777</u>	<u>830,833</u>

In April 2003, the Authority issued revenue bonds in the amount of \$14,650,000 to finance a groundwater treatment facility, wells, and water transmission lines. In January 2013, the bonds were defeased and the liability for these bonds was eliminated.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

General long-term obligations at June 30, 2014 are compromised of the following:

\$27,120,000 Revenue Bonds, Series 2008, issued August 2008,
maturing in various annual installments through 2040, with
interest payable semiannually at 3.50% \$ 24,660,000

Future maturities of the Authority's debt obligation with scheduled interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal year ending June 30:		
2015	\$ 545,000	1,100,931
2016	565,000	1,081,856
2017	585,000	1,062,081
2018	605,000	1,041,606
2019	630,000	1,017,406
2020 – 2024	3,545,000	4,683,469
2025 – 2029	4,365,000	3,861,738
2030 – 2034	3,110,000	2,983,038
2035 – 2039	9,145,000	2,563,188
2040	1,565,000	78,250
	\$ <u>24,660,000</u>	<u>19,473,563</u>

6) Salaries and Fringe Benefits

Salaries and fringe benefits, such as vacation, sick leave, paid time off, hospitalization insurance, and pension plan costs are paid by the County. The costs attributable to Authority personnel are reimbursed to the County by the Authority. Any costs associated with earned but unused vacation and sick leave are reported in the financial statements.

At June 30, 2014 and 2013, employees' earned but unused vacation was \$293,970 and \$323,523, respectively, and unused sick leave was \$79,943 and \$84,254, respectively, and are both included in compensated absences in the accompanying balance sheets. Upon termination, employees are entitled to receive cash payments for sick leave at 25% of accumulated values up to a maximum of \$5,000. Employees are entitled to sick leave reimbursement only after having been employed by the Authority for a minimum of two years.

7) Pension Plan

(a) Plan Description

All full-time, salaried regular employees of participating employers are automatically covered by Virginia Retirement System (VRS) upon employment. The VRS plan is a single-employer defined benefit plan and is administered by the County. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

VRS administers three different benefit plans for local government employees – Plan 1, Plan 2 and Hybrid. Each plan has different eligibility and benefit structures as set out below.

VRS PLAN 1:

About VRS Plan 1

VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

Eligible Members

Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

Retirement Contributions

Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment. Beginning July 1, 2012, the Authority opted for employees to pay the entire 5% member contribution.

Creditable Service

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.

Normal Retirement Age

Age 65.

Earliest Unreduced Retirement Eligibility

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 55 with at least 30 years of creditable service.

Earliest Reduced Retirement Eligibility

Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Eligibility:

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

Exceptions to COLA Effective Dates:

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2:

About VRS Plan 2

VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010 and before January 1, 2014, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Eligible Members

Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

Retirement Contributions

Same as VRS Plan 1.

Creditable Service

Same as VRS Plan 1.

Vesting

Same as VRS Plan 1.

Calculating the Benefit

See definition under VRS Plan 1.

Average Final Compensation

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier

Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age

Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Eligibility:

Same as VRS Plan 1

Exceptions to COLA Effective Dates:

Same as VRS Plan 1

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Same as VRS Plan 1.

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. Some employees are not eligible to participate in the Hybrid Retirement Plan. They include members of the State Police Officers' Retirement System (SPORS), the Virginia Law Officers' Retirement System (VaLORS), or political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

Creditable Service

Defined Benefit Component:

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit.

Defined Contributions Component:

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Calculating the Benefit

Defined Benefit Component:

See definition under VRS Plan 1

Defined Contribution Component:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation

Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

Service Retirement Multiplier

The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component:

Same as VRS Plan 2.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component:

Same as VRS Plan 2.

Defined Contribution Component:

Not applicable.

Eligibility:

Same as VRS Plan 1 and VRS Plan 2.

Exceptions to COLA Effective Dates:

Same as VRS Plan 1 and VRS Plan 2.

Disability Coverage

Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including VRS Plan 1 and

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Defined Benefit Component:

Same as VRS Plan 1.

Defined Contribution Component:

Not applicable.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS website at <http://www.varetire.org/pdf/publications/2013-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. Effective July 1, 2012, Plan 1 members were required to make the 5% member contribution. Prior to this date, the Authority assumed this contribution for employees. Effective July 1, 2011, Plan 2 members were required to make the 5% member contribution. In addition, the Authority is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority's employer contribution rates for the fiscal years ended June 30, 2014 and 2013 were 7.83% of annual covered payroll.

(c) Annual Pension Cost

For fiscal years 2014 and 2013, the Authority's annual pension costs of \$506,097 and \$506,157, respectively, was equal to the Authority's required and actual contributions.

The fiscal year 2014 required contribution was determined as part of the June 30, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2013 included (a) an investment rate of return (net of administrative expenses) of 7%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 members and 2.25% per year for Plan 2 members. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

The trend information for the Authority's employees is as follows:

Three-year trend information			
Fiscal year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2014	\$ 506,097	100%	None
June 30, 2013	506,157	100	None
June 30, 2012	382,768	100	None

(d) Funded Status and Funding Progress

The plan's funded status and funding progress as of the most recent actuarial valuation, June 30, 2013, was as follows:

Actuarial value of assets	\$ 10,777,205
Actuarial accrued liability (AAL)	13,242,723
Unfunded actuarial accrued liability (UAAL)	2,465,518
Funded ratio	81.38%
Covered payroll	3,893,323
UAAL as a percentage of covered payroll	63.33%

Immediately following the notes to basic financial statements in the Required Supplementary Information is a schedule of funding progress for the Authority's defined benefit pension plan, which presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

8) Post-Employment Benefits Other Than Pensions (OPEB)

The Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for reporting the liability for the Authority's nonpension postemployment benefit, the health care plan for retirees. The Authority's OPEB plan is a single-employer defined benefit plan and is administered by the County. The current year Annual Required Contribution was \$36,000. No separate actuarial information is available with regard to the Authority's participation. Detailed disclosures regarding the County's participation and related actuarial information can be found in the County's annual financial statements.

(a) Plan Provisions

In addition to providing the pension benefits described in note 7, the Authority provides postemployment health care (OPEB) for qualifying retired employees who are not yet eligible for Medicare through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority through its personnel manual.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

(b) Funding Policy

The Authority does not intend to establish a trust to prefund this liability. The anticipated growth in the net OPEB obligation is based on contributions to the benefit plan on a pay-as-you-go cost basis. The data has been projected into the future based on the assumption the current active population remains constant. Also, the estimated contributions are based on the implicit rate subsidy payments made during the year by the retirees.

(c) Plan Description

Currently, covered full-time active employees who retire directly from the Authority and are at least 50 years of age with 15 years of service are eligible to receive postretirement health care benefits. Each year, retirees participating in the Authority's sponsored plans will be given the opportunity to change plans or drop coverage during an open enrollment period. The pre-Medicare retirees have a choice of three plans: Optima, Healthkeepers and KeyCare. The majority of the participants are in Healthkeepers. Dental plans are available at the retiree's cost, and therefore, have no GASB 45 liability. There is no coverage for post-Medicare retirees. There were 76 active employee participants at the time of the actuarial study. Since the retirees contribute towards their health insurance premiums based on a blended rate, the Authority has an implicit liability.

(d) Annual OPEB Cost and Net OPEB Obligation

The net OPEB obligation as of June 30, 2014 was calculated as follows:

Annual required contribution	\$ 44,000
Interest on net OPEB obligation	7,000
Actuarial adjustments	<u>(8,000)</u>
Annual OPEB cost	43,000
Contributions made	<u>(7,000)</u>
Increase in net OPEB obligation	36,000
Net OPEB obligation, beginning of year	171,509
Net OPEB obligation, end of year	<u>\$ 207,509</u>

Year Ended June 30,	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
2014	\$ 36,000	19.4%	\$ 207,509
2013	34,000	38.2	171,509
2012	32,000	34.4	150,509

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

(e) Actuarial Methods and Assumptions

Valuation Methods

The projected unit credit method was used to calculate all of the expense amounts and the funded status of the plan. The calculations were performed in accordance with the methodologies set forth in GASB Statement No. 45. Under these methods, benefits provided by the substantive plan (the plan as understood by the Authority and the plan members) at the time of the actuarial study are projected and their present value is determined. The present value is divided into equal parts which are earned over the period from date of hire to the full eligibility date.

Employees Included in the Calculations

All active employees who are expected to meet the plan's eligibility requirements on or before the ultimate assumed retirement age are included in the calculations. Retirees, spouses and spouse survivors who are entitled to a benefit under the provisions of the plan are also included.

Actuarial Assumptions

In the July 1, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included calculations based on a discount rate of 4% for the unfunded liability, rate of inflation of 2.5%, payroll growth of 3% and amortization of the initial unfunded actuarial liability over a closed 25 year period based on a level percent of payroll method. The actuarial accrued liability was \$389,000. Future increases for medical benefits are assumed to range from an initial rate of 7.50% and gradually decrease to 5.04% thereafter. It should be noted that actuarial valuations for the OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. As such, actuarial calculations reflect a long-term perspective and, therefore, actuarially determined amounts are subject to revision as results are compared to past expectations and new estimates are made about the future.

(f) Schedule of Funding Progress

Actuarial valuation date July 1,	Actuarial value of assets	Actuarial accrued liability (AAL) project unit credit	Unfunded actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2013	\$ -	389,000	389,000	-	4,288,721	9.1%
2012	-	343,000	343,000	-	4,306,155	8.0
2011	-	322,000	322,000	-	4,144,696	7.8

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

9) Deferred Compensation Plan

The Authority offers its employees a deferred-compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to regular part-time and full-time Authority employees, permits them to defer 25% of their gross income up to a maximum of \$17,500 per year. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

As required by Internal Revenue Code Section 457, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust for the participants. The County acts as trustee for the plan with the choice of investment options being made by the participants.

10) Transactions with Related Parties

Certain financial management, accounting, and other services are provided to the Authority by the County. The charges for these services amounted to \$857,564 and \$845,205 for the years ended June 30, 2014 and 2013, respectively, and are included in the expenses under contractual fees. The Authority also owed the County \$455,495 and \$1,078,608 at June 30, 2014 and 2013, respectively, which primarily represents payroll expenses incurred by the Authority.

In addition, the County leases space in the Authority's administration building under a 25-year noncancelable operating lease agreement with the County, which was extended through June 2014. Effective July 1, 2014 there is a new lease agreement for a ten year term. Rent revenue was \$105,195 for the years ended June 30, 2014 and 2013, respectively. Rent revenue included the County's share of utilities, insurance, maintenance, housekeeping supplies, and custodial services, all of which is included in rental income in the accompanying statements of revenues, expenses, and changes in net assets.

11) Commitments and Contingencies

(a) Construction in Progress

At June 30, 2014, the Authority had several major projects under construction which are presented in the accompanying financial statements as construction in progress. Presented below is a list of these projects, by budget, expenditures to date, balance of contract, and budget balance.

Project	Budget	Expenditures to date	Balance of contract	Budget balance
Sewer improvements	\$ 5,028,354	1,183,031	575,857	3,269,466
Water supply	8,684,574	479,088	103,551	8,101,935
Water distribution	331,971	-	-	331,971
Water transmission	69,122	-	54,417	14,705
Water storage	685,620	-	-	685,620
Other	1,031,684	86,501	177,501	767,682
	<u>\$ 15,831,325</u>	<u>1,748,620</u>	<u>911,326</u>	<u>13,171,379</u>

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

(b) *Project Development Agreement – Long Term Water Supply*

The Authority entered into a project development agreement with the City of Newport News on March 25, 2008 for long-term water supply. The initial term of this agreement ends on January 1, 2050, at which time this agreement shall be automatically renewed for additional terms of 25 years. The Authority paid the City of Newport News \$25 million on December 31, 2008, which was the first installment of this agreement. The second payment of \$25 million is due by June 30, 2019. Both installment payments are considered to be for the purchase of an intangible asset (rights to water supply) and, as such, these costs will be capitalized and amortized over the remaining life of the agreement (initial term). See note 3 for more information on the intangible asset.

In addition to the installment payments, the Authority agreed to pay variable and fixed operating and maintenance costs to the City of Newport News payable by September 1 each year, based on its safe yield share of 20%. For the years ended June 30, 2014 and 2013, the Authority paid \$1,032 and \$3,229, respectively, to the City of Newport News for these costs. Further, the Authority also agreed that if it receives water from the City of Newport News through this agreement, to pay for the treatment of such water at a cost of \$1.07 per 1,000 gallons. For the years ended June 30, 2014 and 2013, the Authority did not receive water from the City of Newport News under this agreement, and, as such, did not incur or pay for water treatment these fiscal years.

(c) *Grinder Pump Maintenance*

The Authority entered into a contract with Final Phase Installations, Inc. where they will provide grinder pump maintenance. The initial term of the contract was November 1, 2011 through October 31, 2012, with the option to renew for up to 4 additional years. Monthly payments are \$18,492. For the years ended June 30, 2014 and 2013, the Authority paid \$221,909 each year towards this contract.

(d) *Water Storage Tank Maintenance*

The Authority entered into a contract with Superior Industrial Maintenance Company where they will provide water storage tank maintenance. The initial term of the contract is July 1, 2012 through June 30, 2013, with the option to renew for up to 4 additional years. For the years ended June 30, 2014 and 2013, the Authority paid \$216,066 and \$379,550, respectively, towards this contract.

(e) *Regional Hybrid Consolidation Plan*

In February 2014, the Authority, HRSD and fourteen Hampton Roads localities entered into a Regional Hybrid Consolidation Plan for meeting Consent Agreement requirements to reduce sewer overflows. Under this plan, HRSD is responsible for major rehabilitation projects to repair deteriorated infrastructure and projects to increase the capacity of HRSD and locality pump stations and pipelines. HRSD will fund the work through a regional HRSD rate. The Authority keeps ownership and control of its local sewer infrastructure and is still responsible for monitoring and maintaining the local sewer system to Consent Agreement standards and fixing significant defects on an ongoing basis.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Notes to Financial Statements

June 30, 2014 and 2013

(f) Other

The Authority is not currently involved in any litigation which management feels could have a significant impact on the Authority's financial condition.

12) Note Receivable

In September 2009, the Authority executed a promissory note with Anderson-Hughes, LLC pursuant to the Sewer Modification Contract dated September 20, 2007 for the installation of grinder pumps. The promissory note was issued for \$170,000 at 6% interest. Anderson-Hughes, LLC is required to pay \$2,508 per month until August 2016. At June 30, 2014 and 2013, the note receivable balance was \$60,994 and \$86,585, respectively.

13) Restatement

The Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on fiscal years 2013 and 2012 is as follows:

	2013		2013
	Previously		Restated
	Presented	Restatement	
Unamortized bond issue costs	\$ 489,531	(489,531)	-
Net position – unrestricted	30,189,025	(489,531)	29,699,494
Net position	172,775,615	(489,531)	172,286,084

	2012		2012
	Previously		Restated
	Presented	Restatement	
Unamortized bond issue costs	\$ 593,900	(593,900)	-
Net position – unrestricted	34,700,803	(593,900)	34,106,903
Net position	174,449,702	(593,900)	173,855,802

Note: 2012 information is restated in the Management's Discussion and Analysis (MD&A, pages 3-8) only. For the basic financial statements, 2013 is restated.

This page intentionally left blank

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A (Unaudited)**

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Required Supplementary Information Other Than MD&A (Unaudited)
Schedule of Funding Progress – VRS

June 30, 2014

Actuarial valuation date		Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded actuarial accrued liability/ (funding excess) (UAAL)	Funded ratio	Covered payroll	UAAL/(excess funding) as a percentage of covered payroll
June 30, 2013	\$	10,777,205	13,242,723	2,465,518	81.38%	\$ 3,893,323	63.33%
June 30, 2012		10,146,323	12,443,789	2,297,466	81.54	3,779,338	60.79
June 30, 2011		9,884,534	11,714,335	1,829,801	84.38	3,789,456	48.29
June 30, 2010		9,379,772	11,139,934	1,760,162	84.20	3,762,294	46.78
June 30, 2009		9,259,271	9,773,570	514,299	94.74	3,995,122	12.87

See accompanying independent auditors' report.

This page intentionally left blank

SUPPLEMENTARY INFORMATION

Exhibit A

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Statements of Net Position – by Activity

June 30, 2014
(with comparative totals for 2013)

Assets	Water operations	Sewer operations	Totals	
			2014	2013 (as restated)
Current assets:				
Cash and cash equivalents	\$ 270,006	316,964	586,970	666,123
Investments	10,491,178	18,464,497	28,955,675	28,596,424
Accounts receivable, customers	1,096,946	1,324,361	2,421,307	2,530,817
Accounts receivable, other	86,623	—	86,623	88,940
Note receivable	60,994	—	60,994	86,585
Interest receivable	43,087	38,210	81,297	91,217
Inventories	768,040	52,160	820,200	803,956
Total current assets	12,816,874	20,196,192	33,013,066	32,864,062
Noncurrent assets:				
Capital assets:				
Utility plant:				
Land	—	962,995	962,995	962,695
Water and sewer systems	120,623,035	116,403,569	237,026,604	233,407,744
Total utility plant	120,623,035	117,366,564	237,989,599	234,370,439
Nonutility property:				
Land	1,750,391	—	1,750,391	1,750,391
Central shop	4,816,776	67,343	4,884,119	4,860,309
Office fixtures and equipment	1,198,430	498,502	1,696,932	1,669,073
Land improvements	13,183	—	13,183	13,183
Automotive equipment	1,881,338	468,589	2,349,927	2,411,512
Total nonutility property	9,660,118	1,034,434	10,694,552	10,704,468
Intangible assets:				
Easements	4,570	—	4,570	4,570
Water rights	25,000,000	—	25,000,000	25,000,000
Total intangible assets	25,004,570	—	25,004,570	25,004,570
Construction in progress	565,589	1,183,031	1,748,620	510,598
Less accumulated depreciation and amortization	58,838,806	54,015,580	112,854,386	105,438,869
Net capital assets	97,014,506	65,568,449	162,582,955	165,151,206
Investments restricted for future use	2,601,160	—	2,601,160	2,620,384
Total noncurrent assets	99,615,666	65,568,449	165,184,115	167,771,590
Total assets	\$ 112,432,540	85,764,641	198,197,181	200,635,652
Liabilities and Net Position				
Current liabilities:				
Accounts payable, trade	\$ 424,118	44,311	468,429	786,477
Accrued salaries	24,796	2,851	27,647	13,258
Compensated absences, current portion	280,435	—	280,435	305,833
Due to James City County	426,148	29,347	455,495	1,078,608
Deposits	184,406	—	184,406	160,764
Interest payable	504,847	—	504,847	513,273
Bonds payable, including unamortized premium, current portion	545,000	—	545,000	525,000
Total current liabilities	2,389,750	76,509	2,466,259	3,383,213
Noncurrent liabilities:				
Advances for construction	5,882	27,020	32,902	32,902
OPEB liability	112,055	95,454	207,509	171,509
Compensated absences, net of current portion	93,478	—	93,478	101,944
Bonds payable, including unamortized premium, net of current portion	24,115,000	—	24,115,000	24,660,000
Total noncurrent liabilities	24,326,415	122,474	24,448,889	24,966,355
Total liabilities	26,716,165	198,983	26,915,148	28,349,568
Net position:				
Net investment in capital assets	72,354,506	65,568,449	137,922,955	139,966,206
Restricted for capital projects	2,601,160	—	2,601,160	2,620,384
Unrestricted	10,760,709	19,997,209	30,757,918	29,699,494
Total net position	85,716,375	85,565,658	171,282,033	172,286,084
Total liabilities and net position	\$ 112,432,540	85,764,641	198,197,181	200,635,652

See accompanying independent auditors' report.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Statements of Revenues, Expenses, and Changes in Net Position – by Activity

Year ended June 30, 2014
(with comparative totals for year ended June 30, 2013)

	Water operations	Sewer operations	Totals 2014	2013 (as restated)
Operating revenues:				
Water and sewer services	\$ 6,063,722	5,761,980	11,825,702	12,002,533
Reimbursement for storm costs	180	720	900	—
Other	440,456	63,796	504,252	420,265
Total operating revenues	<u>6,504,358</u>	<u>5,826,496</u>	<u>12,330,854</u>	<u>12,422,798</u>
Operating expenses:				
Salaries	1,978,471	2,310,250	4,288,721	4,306,155
Fringe benefits	758,280	887,868	1,646,148	1,636,038
Operating supplies	649,702	232,551	882,253	822,882
Maintenance of buildings and equipment	1,222,145	2,279,453	3,501,598	3,364,910
Utilities	636,892	238,128	875,020	862,665
Contractual fees	401,911	434,723	836,634	910,491
Other	231,265	265,586	496,851	504,573
Total operating expenses	<u>5,878,666</u>	<u>6,648,559</u>	<u>12,527,225</u>	<u>12,407,714</u>
Operating income (loss) before depreciation and amortization	625,692	(822,063)	(196,371)	15,084
Depreciation and amortization	<u>4,821,801</u>	<u>2,848,590</u>	<u>7,670,391</u>	<u>7,619,431</u>
Operating loss	<u>(4,196,109)</u>	<u>(3,670,653)</u>	<u>(7,866,762)</u>	<u>(7,604,347)</u>
Nonoperating revenues (expenses):				
Facility charges	2,351,073	1,954,655	4,305,728	3,868,654
Investment income (loss)	123,226	143,835	267,061	(1,249,111)
Gain (loss) on disposal of capital assets	3,740	11,612	15,352	(44,507)
Interest, net	(1,114,130)	—	(1,114,130)	(1,141,052)
Net nonoperating revenues	<u>1,363,909</u>	<u>2,110,102</u>	<u>3,474,011</u>	<u>1,433,984</u>
Loss before capital contributions	(2,832,200)	(1,560,551)	(4,392,751)	(6,170,363)
Capital asset contributions	<u>1,170,459</u>	<u>2,218,241</u>	<u>3,388,700</u>	<u>4,600,645</u>
Changes in net position	<u>(1,661,741)</u>	<u>657,690</u>	<u>(1,004,051)</u>	<u>(1,569,718)</u>
Net position at beginning of year, restated	<u>87,378,116</u>	<u>84,907,968</u>	<u>172,286,084</u>	<u>173,855,802</u>
Net position at end of year	<u>\$ 85,716,375</u>	<u>85,565,658</u>	<u>171,282,033</u>	<u>172,286,084</u>

See accompanying independent auditors' report.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Schedule of Operating Revenues and Expenses – Budget and Actual – by Activity
Year ended June 30, 2014

	Water operations		Variance favorable (unfavorable)	Sewer operations		Variance favorable (unfavorable)
	Actual	Budget		Actual	Budget	
Operating revenues:						
Water and sewer services	\$ 6,063,722	6,601,473	(537,751)	5,761,980	6,247,000	(485,020)
Other	440,636	338,621	102,015	64,516	30,000	34,516
Total operating revenues	<u>\$ 6,504,358</u>	<u>6,940,094</u>	<u>(435,736)</u>	<u>5,826,496</u>	<u>6,277,000</u>	<u>(450,504)</u>
Operating expenses:						
Salaries	\$ 1,978,471	2,080,036	101,565	2,310,250	2,431,153	120,903
Fringe benefits	758,280	830,024	71,744	887,868	928,843	40,975
Operating supplies	649,702	627,597	(22,105)	232,551	250,675	18,124
Maintenance of buildings and equipment *	1,222,145	1,678,763	456,618	2,279,453	2,366,792	87,339
Utilities	636,892	646,776	9,884	238,128	281,589	43,461
Contractual fees	401,911	479,117	77,206	434,723	561,168	126,445
Other	231,265	313,553	82,288	265,586	377,025	111,439
Total operating expenses	<u>\$ 5,878,666</u>	<u>6,655,866</u>	<u>777,200</u>	<u>6,648,559</u>	<u>7,197,245</u>	<u>548,686</u>

See accompanying independent auditors' report.

* Includes budget from Capital Improvements Program for maintenance expenses related to the Department of Environmental Quality consent order.

This page intentionally left blank

STATISTICAL SECTION

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Statistical Section Overview

This part of the James City Service Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the Authority's overall financial health.

Contents

Financial Trends **Tables 1-2**

These tables contain trend information to help the reader understand how the Authority's financial performance and well-being has changed over time.

Revenue Capacity **Tables 3-4**

These tables contain information to help the reader assess the factors affecting the Authority's ability to generate its operating revenues.

Debt Capacity **Tables 5-7**

These tables present information to help the reader assess the affordability of the Authority's current level of outstanding debt and its ability to issue additional debt in the future.

Demographic & Economic Information **Tables 8-9**

These tables offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

Operation Information **Tables 10-16**

These tables contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

Table 1

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Net Position
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012 (as restated)	2013 (as restated)	2014
Net Position										
Net investment in capital assets	\$ 112,013,177	124,654,601	132,145,149	134,316,001	134,314,330	135,071,435	135,641,623	134,872,139	139,966,206	137,922,955
Restricted for capital projects	696,483	703,494	709,584	705,775	4,674,837	4,610,218	4,740,769	4,876,760	2,620,384	2,601,160
Unrestricted	27,135,809	29,627,748	33,151,555	35,703,438	36,591,088	36,430,621	34,057,874	34,106,903	29,699,494	30,757,918
Total net position	<u>\$ 139,845,469</u>	<u>154,985,843</u>	<u>166,006,288</u>	<u>170,725,214</u>	<u>175,580,255</u>	<u>176,112,274</u>	<u>174,440,266</u>	<u>173,855,802</u>	<u>172,286,084</u>	<u>171,282,033</u>

Note: 2012 information is restated in the Management's Discussion and Analysis (MD&A, pages 3-8) only. For the basic financial statements, 2013 is restated.

Table 2

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Changes in Revenues, Expenses and Net Position

Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012 (as restated)	2013 (as restated)	2014
Operating revenues:										
Water and sewer services	\$ 8,383,600	10,269,798	11,464,460	11,211,578	12,279,796	12,314,268	12,603,818	11,718,297	12,002,533	11,825,702
Rental income	195,981	217,172	187,753	181,256	135,234	144,441	171,401	144,381	164,875	160,914
Water supply proffers	634,885	403,459	530,518	502,217	138,170	52,908	125,192	26,967	13,362	57,446
Reimbursements for storm costs	—	—	161,573	—	—	—	—	349,541	—	900
Other	431,550	309,429	1,029,399	615,883	241,569	450,027	190,467	198,025	242,028	285,892
Total operating revenues	9,646,016	11,199,858	13,373,703	12,510,934	12,794,769	12,961,644	13,090,878	12,437,211	12,422,798	12,330,854
Operating expenses:										
Salaries	3,187,930	3,468,415	3,798,002	4,066,458	4,360,920	4,133,261	4,040,543	4,144,696	4,306,155	4,288,721
Fringe benefits	1,009,184	1,157,005	1,496,723	1,529,173	1,612,176	1,570,514	1,585,037	1,584,707	1,636,038	1,646,148
Operating supplies	533,095	625,773	789,553	775,892	1,014,351	866,624	888,559	899,095	822,882	882,253
Maintenance of buildings and equipment	1,235,196	982,237	1,148,217	1,715,131	1,687,340	1,969,116	3,193,116	3,065,512	3,364,910	3,501,598
Utilities	621,956	692,084	739,235	893,503	1,008,602	771,544	813,478	917,498	862,665	875,020
Contractual fees	530,321	543,365	626,437	640,618	735,132	889,869	873,110	882,505	910,491	836,634
Storm costs	—	—	161,349	—	—	—	—	359,921	—	—
Other	625,683	814,832	660,802	584,824	535,001	784,305	697,629	560,671	504,573	496,851
Total operating expenses	7,743,365	8,283,711	9,420,318	10,205,599	10,953,522	10,985,233	12,091,472	12,414,605	12,407,714	12,527,225
Operating income before depreciation and amortization	1,902,651	2,916,147	3,953,385	2,305,335	1,841,247	1,976,411	999,406	22,606	15,084	(196,371)
Depreciation and amortization	4,547,931	5,330,865	5,594,153	5,864,920	6,410,118	7,087,224	7,273,473	7,469,016	7,619,431	7,670,391
Operating loss	(2,645,280)	(2,414,718)	(1,640,768)	(3,559,585)	(4,568,871)	(5,110,813)	(6,274,067)	(7,446,410)	(7,604,347)	(7,866,762)
Nonoperating revenues (expenses):										
Facility charges	6,130,640	6,132,383	5,904,875	3,428,121	2,507,300	3,260,875	3,839,702	3,165,330	3,868,654	4,305,728
Investment income (loss)	506,939	935,971	1,503,939	1,995,201	3,658,420	956,056	509,675	351,929	(1,249,111)	267,061
Gain (loss) on disposal of capital assets	24,124	(39,930)	(2,198,500)	181,615	74,226	(251,710)	34,324	21,285	(44,507)	15,352
Interest expense, net	(513,617)	(494,712)	(475,557)	(480,584)	(1,379,059)	(1,749,899)	(1,531,715)	(1,478,060)	(1,141,052)	(1,114,130)
Net nonoperating revenues	6,148,086	6,533,712	4,734,757	5,124,353	4,860,887	2,215,322	2,851,986	2,060,484	1,433,984	3,474,011
Income before contributions	3,502,806	4,118,994	3,093,989	1,564,768	292,016	(2,895,491)	(3,422,081)	(5,385,926)	(6,170,363)	(4,392,751)
Capital asset contributions	4,983,390	10,077,376	7,926,456	3,154,158	4,563,025	3,427,510	1,750,073	5,395,362	4,600,645	3,388,700
Changes in net position	\$ 8,486,196	14,196,370	11,020,445	4,718,926	4,855,041	532,019	(1,672,008)	9,436	(1,569,718)	(1,004,051)

Note: 2012 information is restated in the Management's Discussion and Analysis (MD&A, pages 3-8) only. For the basic financial statements, 2013 is restated.

Table 3

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Water and Sewer Rates

Last Ten Fiscal Years

**Historical Summary of Quarterly Continuing
Service Charges for Residential Water Service**

Fiscal Year	Basic Charge	Rate per 1,000 gallons (1)	Quarterly Total (2)	Percentage Change
2005	None	\$ 2.30 - 2.71 - 7.60	50.10	—
2006	None	2.30 - 2.71 - 7.60	50.76	1.3
2007	None	2.50 - 3.00 - 8.50	55.50	9.3
2008	None	2.50 - 3.00 - 8.50	55.50	—
2009	None	2.85 - 3.45 - 9.80	63.45	14.3
2010	None	2.85 - 3.45 - 9.80	63.45	—
2011	None	2.85 - 3.45 - 9.80	63.45	—
2012	None	2.85 - 3.45 - 9.80	63.45	—
2013	None	2.85 - 3.45 - 9.80	63.45	—
2014	None	2.85 - 3.45 - 9.80	63.45	—

**Historical Summary of Quarterly Continuing
Service Charges for Residential Sewer Service (1)**

Fiscal Year	Basic Charge	Rate per 1,000 gallons	Quarterly Total (2)	Percentage Change
2005	None	\$ 2.70	56.70	8.0
2006	None	2.70	56.70	—
2007	None	2.80	58.80	3.7
2008	None	2.80	58.80	—
2009	None	2.80	58.80	—
2010	None	2.80	58.80	—
2011	None	2.80	58.80	—
2012	None	2.80	58.80	—
2013	None	3.22	67.62	15.0
2014	None	3.22	67.62	—

Source: James City Service Authority Schedule of Rates and Fees

(1) Inverted Block Rate Structure:

1st Block based on 0 to 15,000 gallons used per quarter.

2nd Block based on 15,000 to 25,000 gallons used per quarter, which changed to 15,000 to 30,000 gallons used per quarter commencing in fiscal year 2005.

3rd Block based on over 25,000 gallons used per quarter, which changed to 30,000 gallons used per quarter commencing in fiscal year 2005.

(2) Assumes 21,000 gallons average quarterly use.

Table 4

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Listing of Largest Utility Customers

Current Year and Ten Years Ago

	2014			2005		
	Gallons Billed	Service Charges	Rank	Gallons Billed	Service Charges	Rank
Owens-Brockway *	25,051,250	\$ 167,092	1	**	**	
Greystone	17,168,000	114,511	2	**	**	
Country Village (sewer only)	16,366,240	52,699	3	**	**	
Patriots Colony	14,841,440	98,992	4	**	**	
Eastern State Hospital *	14,389,000	95,975	5	**	**	
Williamsburg-James City County						
Public Schools *	13,932,550	89,066	6	**	**	
Windy Hill Trailer (sewer only)	11,622,424	37,424	7	**	**	
Platinum Management	11,000,000	73,370	8	**	**	
Oxford-James	8,418,400	56,150	9	**	**	
Rolling Meadows	8,393,220	55,983	10	**	**	
Total	<u>141,182,524</u>	<u>\$ 841,262</u>		<u> </u>	<u> </u>	

* Subject to wastewater sub-meter adjustments.

** Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section*, was adopted by the Authority as of July 1, 2005. Hence, the information for fiscal year 2005 is not available.

Source: James City Service Authority, Administration Department

Table 5

JAMES CITY SERVICE AUTHORITY
 (A Component Unit of the County of James City, Virginia)

Ratio of Outstanding Debt

Last Ten Fiscal Years

Fiscal year		Revenue bonds	Number of connections	Debt per connection
2005	\$	13,961,041	16,531	844.5
2006		13,034,918	17,552	742.6
2007		12,133,794	18,283	663.7
2008		11,212,670	18,770	597.4
2009		37,386,546	19,085	1,958.9
2010		35,950,422	19,368	1,856.2
2011		34,469,299	19,719	1,748.0
2012		32,938,175	20,070	1,641.2
2013		25,185,000	20,549	1,225.6
2014		24,660,000	20,858	1,182.3

Legal Debt Margin: The James City Service Authority has no legal debt margin nor overlapping debt.

Source: James City Service Authority, Administration Department

Table 6

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Revenue Bond Coverage

Last Ten Fiscal Years

Fiscal year		Gross revenue	Direct operating expenses	Net revenue available for debt service	Principal	Interest	Total	Coverage
2005	\$	16,307,719	7,743,365	8,564,354	840,000	541,881	1,381,881	6.20
2006		18,268,212	8,283,711	9,984,501	860,000	522,981	1,382,981	7.22
2007		20,782,517	9,420,318	11,362,199	880,000	503,631	1,383,631	8.21
2008		18,115,871	10,205,599	7,910,272	905,000	479,431	1,384,431	5.71
2009		19,034,715	10,953,522	8,081,193	1,395,000	1,637,050	3,032,050	2.67
2010		17,178,575	10,985,233	6,193,342	1,440,000	1,590,562	3,030,562	2.04
2011		17,474,579	12,091,472	5,383,107	1,490,000	1,537,750	3,027,750	1.78
2012		15,975,755	12,414,605	3,561,150	1,545,000	1,483,100	3,028,100	1.18
2013		14,997,834	12,407,714	2,590,120	525,000	1,119,306	1,644,306	1.57
2014		16,918,995	12,527,225	4,391,770	545,000	1,100,931	1,645,931	2.67

Legal Debt Margin: The James City Service Authority has no legal debt margin nor overlapping debt.

Table 7

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Outstanding Debt for James City County

Last Ten Fiscal Years

Fiscal year		General obligation bonds	Capital leases	Lease revenue bonds	Other debt	Total
2005	\$	109,814,071	13,816,000	—	432,900	124,062,971
2006		106,062,319	13,908,307	22,570,000	278,950	142,819,576
2007		126,590,560	13,038,190	112,780,000	125,000	252,533,750
2008		118,369,735	12,126,298	107,200,000	—	237,696,033
2009		109,974,105	11,170,533	101,595,000	—	222,739,638
2010		101,414,765	10,169,895	110,275,000	—	221,859,660
2011		93,283,624	10,285,522	104,055,000	—	207,624,146
2012		86,134,103	9,235,074	104,472,000	—	199,841,177
2013		77,948,002	1,098,854	123,034,000	—	202,080,856
2014		73,066,583	984,528	114,416,000	—	188,467,111

Table 8

JAMES CITY SERVICE AUTHORITY
 (A Component Unit of the County of James City, Virginia)
 County Demographic and Economic Statistics
 Last Ten Calendar Years

Calendar year	Population (1)	Personal income (2)	Per capita personal income (2)	Unemployment percentage (1)
2005	56,463	\$ 2,952,937,000	41,692	3.1%
2006	58,893	3,289,020,000	44,480	2.6
2007	60,867	3,641,841,000	47,825	2.5
2008	61,195	3,985,612,000	51,274	3.2
2009	63,135	3,840,912,000	48,129	5.5
2010	67,745	4,037,513,000	49,563	5.5
2011	68,500	4,408,223,000	53,364	5.3
2012	69,451	4,610,247,000	54,796	5.1
2013	70,376	**	**	4.6
2014	70,711	**	**	**

(1) Planning Division, supplemented by data from Virginia Employment Commission
 (<http://www.vec.virginia.gov/>)

(2) Data from the Bureau of Economic Analysis (<http://www.bea.gov/>), and has combined data for
 James City County and the City of Williamsburg

** Statistics not yet available

Table 9

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Principal Employers in James City County

Current Year and Nine Years Ago

	2014			2005 (1)		
	Employees	Rank	Percentage of total County employment	Employees	Rank	Percentage of total County employment
Employment:						
Principal Public/Private Employers:						
Busch Gardens (2)	**	1	**	1000+	**	**
Williamsburg-James City County						
Public Schools	1000+	2	5.13%	1000+	**	**
Eastern State Hospital	500-999	3	2.56	1000+	**	**
James City County	500-999	4	2.07	500-999	**	**
Wal-Mart Distribution Center	500-999	5	1.79	250-499	**	**
Anheuser-Busch, Inc.	500-999	6	1.68	—	**	**
Kingsmill Resort	500-999	7	1.46	1000+	**	**
Avid Medical	250-499	8	1.46	—	**	**
Busch Properties, Inc.	—		—	500-999	**	**
Jamestown-Yorktown Foundation	250-499	9	0.88	250-499	**	**
Williamsburg Landing	250-499	10	0.88	250-499	**	**
Williamsburg Plantation, Inc.	—		—	250-499	**	**
Total	—		17.91%	—		—

Source: Economic Development, James City County and Virginia Employment Commission

(1) Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section*, was adopted by the County as of July 1, 2005. Hence, some information for fiscal year 2005 is not available.

(2) Busch Gardens became publicly traded during fiscal year 2013, and information is not available.

Table 10

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Schedule of Insurance in Force

June 30, 2014

Insurer	Type of coverage	Policy number	Policy period		Annual Premium
			from	to	
Virginia Association of Counties Group Self-Insurance Risk Pool (VACoRP)	General liability Property Automobile Crime Public officials' liability	VA-JA-131-10	07/01/13	07/01/14	\$ 126,267
Virginia Association of Counties Group Self-Insurance Association (VACoGSIA)	Workers' compensation	VA-JA-131D-10	07/01/13	07/01/14	73,042

Table 11

JAMES CITY SERVICE AUTHORITY
 (A Component Unit of the County of James City, Virginia)

Full-time Employees by Function

Last Ten Fiscal Years

Function	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Administration	58	61	62	63	65	65	60	63	63	63
Water	13	13	14	14	15	15	15	15	15	15
Sewer	10	11	11	11	11	11	11	11	11	11
Total	<u>81</u>	<u>85</u>	<u>87</u>	<u>88</u>	<u>91</u>	<u>91</u>	<u>86</u>	<u>89</u>	<u>89</u>	<u>89</u>

Source: James City County, Fiscal Year Adopted Budgets

Table 12

JAMES CITY SERVICE AUTHORITY
 (A Component Unit of the County of James City, Virginia)

Operating Indicators by Function

Last Ten Fiscal Years

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water:										
New connections	1,068	880	694	351	263	385	388	351	448	359
Water main breaks	59	51	42	57	37	40	44	31	25	21
Sewer:										
New connections	770	884	693	389	269	380	375	296	347	261

Source: James City Service Authority, Administration Department

Table 13

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water:										
Water lines (miles)	305	319	329	332	339	344	393	390	393	400
Water customers	16,531	17,552	18,283	18,770	19,085	19,368	19,719	20,070	20,549	20,858
Storage tanks (greater than 250,000 gallons)	6	6	6	7	7	7	7	7	7	7
Average ERCs (1)	18,800	19,200	19,600	20,400	25,753	20,200	20,866	19,200	18,597	18,937
Sewer:										
Sewer lines (miles)	352	360	370	375	379	382	419	423	425	430
Gallons collected (millions)	1,469	1,606	1,680	1,727	1,765	1,833	1,598	1,771	1,739	1,862
Sewer customers	17,357	17,982	18,426	18,590	18,702	18,860	21,127	21,488	21,962	22,575

Source: James City Service Authority, Administration Department

(1) Equivalent Residential Connections (ERCs) are determined based upon the rated capacity of a water meter (e.g., the average amount of water which can flow through such meter on a continuous basis) as compared to the rated capacity for a typical 5/8" residential water meter.

Table 14

JAMES CITY SERVICE AUTHORITY
 (A Component Unit of the County of James City, Virginia)
 Summary of Historical Flows (MGD)
 Last Ten Fiscal Years

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Water:										
Average Day	4.7	4.8	4.9	4.9	4.8	5.0	5.1	4.8	4.7	4.7
Average Day in Month of Maximum Flow	6.0	6.4	6.5	6.3	7.1	6.8	7.4	6.4	6.1	5.9
Month of Maximum Flow	July	August	June	July	August	June	July	July	July	June
Sewer:										
Average Day	4.0	4.4	4.6	4.7	5.4	4.5	4.4	5.0	5.0	5.1

Source: James City Service Authority, Administration Department

Table 15

JAMES CITY SERVICE AUTHORITY
 (A Component Unit of the County of James City, Virginia)
 Miscellaneous Statistics

Comparison of Area Water Bills
Annual Consumption 60,000 Gallons as of June 2014
 (Source: James City Service Authority)

<u>Virginia Jurisdiction</u>	<u>Water Service</u>
City of Williamsburg	\$ 288.00
City of Norfolk	423.84
City of Newport News	421.68
City of Virginia Beach	353.52
James City Service Authority	207.00

Comparison of Area Sewer Bills
Annual Consumption 60,000 Gallons as of June 2014
 (Source: James City Service Authority)

<u>Virginia Jurisdiction</u>	<u>Sewer Service *</u>
City of Hampton	\$ 171.60
City of Newport News	257.52
City of Virginia Beach	333.12
City of Norfolk	284.40
York County	264.00
James City Service Authority	193.20

* Rates charged by the municipality. Residents of these municipalities pay a separate wastewater treatment fee to Hampton Roads Sanitation District of \$4.75 per 1,000 gallons.

Table 15

JAMES CITY SERVICE AUTHORITY
 (A Component Unit of the County of James City, Virginia)
 Miscellaneous Statistics

**Historical Summary of Availability Charges
 for a Typical Residential Connection (1)**

Last Ten Fiscal Years

(Source: James City Service Authority)

Fiscal Year		Water	Sewer	Total
2005	\$	2,400	2,400	4,800
2006		2,400	2,400	4,800
2007		2,400	2,400	4,800
2008		4,200	2,520	6,720
2009		4,200	3,360	7,560
2010		4,200	3,360	7,560
2011		4,200	3,360	7,560
2012		4,200	3,360	7,560
2013		4,200	3,360	7,560
2014		4,200	3,360	7,560

(1) A system facilities charge for water service is assessed for each new separate service connection. The purpose of the charge is to defray in part the cost of providing major supply, transmission main, booster pumping and distribution facilities. A similar system facilities charge for sewer service is assessed for each new separate service connection. The current charge for a residential 5/8 inch meter is \$500 per bathroom fixture and has been in effect since 2008. The sewer service connection is also based on the size of the water meter and is \$400 per bathroom fixture and has been in effect since 2009.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

The following are the rates and fees of James City Service Authority:

1) Wastewater Charges

(a) System Facilities Charge

A system facilities charge for wastewater collection service to be furnished through each new separate service connection which is to be made to a public sewer, regardless of who may have paid for the installation of the public sewer to which the connection is to be made, shall be paid by each applicant for service prior to the installation of service, as follows:

Metered Water Service

Commercial, industrial, institutional, multi-family residential, and single-family residential:

Meter size (inches)	Charge
5/8 Residential	\$ 400 per bathroom fixture
5/8 Nonresidential	2,500
3/4	3,500
1	4,000
1 1/2	7,500
2	12,000
3	24,000
4	37,500
5	75,000

Nonmetered Water Service

Where water is provided by an unmetered source, the following estimated charges shall be assessed:

Activity, use	Unit	Charge
Single-family residences	Each	\$ 300 per bathroom fixture
Single-family mobile homes	Each	1,000
Mobile homes in parks	Each lot	1,000
Two family, apartments and townhouses	Each	300 per bathroom fixture
Schools (with showers)	Student	80
Schools (without showers)	Student	50
Motels and hotels	Room	650 or minimum 2,500
Manufacturing	Msf	300 or minimum 1,200
Warehouses	Msf	100 or minimum 1,200
Service stations	Each	1,200
Camping facilities	Each space	500 or minimum 1,200
Restaurants	Seat	20 or minimum 1,200
Commercial	Msf	minimum 1,500

Table 16

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

Activity, use	Unit	Charge
First	30,000 sq. ft.	\$ 500
Next	10,000 sq. ft.	450
Next	10,000 sq. ft.	400
Over	50,000 sq. ft.	350

The purpose of this charge is to defray, in part, the cost of providing force mains, pump stations, transmission mains, booster pumps, and other system facilities.

(b) Local Facilities Charge

A local facilities charge of \$1,050 for each separate connection to public sewer shall be paid by each applicant who desires to secure wastewater service therefrom, which charge shall be paid prior to the approval of the application for service; provided, however, in any instance where satisfactory evidence shows that an applicant has paid the cost of installation of the local facility to which the connection is to be made, either by installing the local facility at his expense and then conveying the same to the Authority (or its predecessors) or by reimbursing the Authority (or its predecessors) for the cost of such local facilities, the local facilities charge shall be waived. Additionally, when the Authority does not install or have a rebate agreement, the local facilities charge shall also be waived. In situations where a new wastewater system has been installed by the Authority and whereas any applicant adjacent to this new system that has an existing septic system desires to receive wastewater service therefrom, the local facilities charge shall be waived for a period of 12 months from the completion date of the new wastewater system installation.

The purpose of this charge is to defray in part the cost of installing collection mains which are necessary to provide wastewater collection service to abutting properties and which have been provided at the expense of the Authority or persons, firms, or corporations other than the applicant. The charge shall be paid prior to issuance of a plumbing permit from Code Compliance.

(c) Grinder Pump Installation and Maintenance Charge

Any applicant for a sewer connection requiring a residential grinder pump may purchase the grinder pump (that meets Authority standards and specifications) plus ancillary parts from the Authority at cost if the grinder pump is necessary to replace an existing septic system. In addition, if the connection to the public sewer system is replacing a septic system, the applicant is eligible for the deferred-payment plan discussed in Paragraph G, Section 2 of the *James City Service Authority Regulations Governing Utility Service*.

An annual grinder pump maintenance charge of \$260 shall be paid for each separate connection to a grinder pump when the operation and maintenance of said residential grinder pump is the responsibility of the Authority. The payment for this charge will be prorated in equal amounts in the customers' utility service charge billing. The Authority shall not maintain nonresidential grinder pumps or other commercial pump stations unless such utility maintenance is deemed by the Authority to be in the interest of the public health or is necessary to protect the integrity of the system, or such facility is located within a designated Reservoir Protection Zone.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

(d) Service Connection Charge

A service connection charge shall be paid by each applicant for each new service connection prior to the approval of the application as follows:

Service installed by	Charge
Developer, applicant	\$10 per connection inspection fee
Utility	Actual cost times 1.25, including overhead

The purpose of this charge is to defray the cost of installation or inspection of a service connection from the public sewer main in the street to the curb or property line.

The service connection charge shall be waived provided the applicant has paid a local facilities charge and the sewer service line is not greater than six inches in diameter for a gravity main or two inches in diameter for a force main. In the event that the service connection charge is not waived, the local facilities charge will be applied against the service connection charge.

(e) Retail Service Rates

The wastewater service charge shall be based on usage from a metered water source where available. For wastewater service on an unmetered water source, a meter sized equivalent shall be used, based upon an estimated charge.

Metered Water Source

Metered water usage shall be reduced by a metered reading from a landscaping meter or similar device if the landscaping meter or device is approved and utilized under operating regulations adopted by Hampton Roads Sanitation District (HRSD).

A copy of the deduction meter reading provided to HRSD must be received by the Authority within 20 days prior to the end of each billing period. In the event a meter reading is not received within this time, the Authority shall bill based on total water consumption and no refund or billing adjustment shall be made.

Charge for all collection and treatment of wastewater:

Volume	Collection
Per 1,000 gallons of water consumed	\$ 1.72
Per 100 cubic feet of water consumed	2.41

Table 16

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

Nonmetered Water Source

Where no meter exists or where meter readings are not made available by the water supplier to the Authority, the estimated charges on the following page shall be assessed.

Activity, use	Unit	Charge
Single-family residences	Each	\$ 42.00
Single-family mobile homes	Each	42.00
Mobile homes in parks	Each lot	37.25
Duplex, apartments and townhouses	Each	37.25
Schools (with showers)	Student	4.25
Schools (without showers)	Student	2.65
Motels and hotels	Room	18.55 or minimum 186.70
Manufacturing	Msf	11.00 or minimum 35.85
Warehouses	Msf	7.45 or minimum 46.50
Service stations	Each	49.95
Camping facilities	Each space	16.22 or minimum 64.25
Restaurants	Seat	4.95 or minimum 55.85
Commercial	Msf	18.55 or minimum 55.85
Churches	Each	40.65
Swimming pools	Sfe	40.65
Laundromats	Sfe	40.65
Others to be established when needed		

The purpose of the retail service charge is to defray all other costs of providing wastewater collection, and in certain cases, treatment for domestic, commercial, and industrial uses including replacement, renewals, extensions, and repayment of moneys borrowed to acquire or construct the wastewater collection transmission system.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

2) Water Charges

(a) System Facilities Charge

A system facilities charge for water service to be furnished through each new separate service connection which is to be made to a public water main, regardless of who may have paid for the installation of the public water main to which the connection is to be made, shall be paid by each applicant for service prior to the installation of the water service connection, listed on the following page:

Commercial, industrial, institutional, multifamily, and single-family residential:

Meter size (inches)	Charge
5/8 Residential	\$ 500 per bathroom fixture
5/8 Nonresidential	2,500
3/4	3,500
1	4,000
1 1/2	7,500
2	12,000
3	24,000
4	37,500
6	75,000

The purpose of this charge is to defray in part the cost of providing major supply, transmission main, booster pumping, and distribution storage facilities. The charge shall be paid prior to the issuance of a plumbing permit from Building Safety and Permits.

(b) Local Facilities Charge

A local facilities charge of \$1,300 for each separate connection to an existing water main shall be paid by each applicant who desires to secure water service therefrom, which charge shall be paid prior to the approval of the application for service; provided, however, in any instance where satisfactory evidence shows that an applicant for a connection has paid the cost of installation of the local facility to which the connection is to be made, whether by installing the local facility at his expense and then conveying the same to the Authority (or its predecessors) or by reimbursing the Authority (or its predecessors) for the cost of such local facility, the local facilities charge shall be waived.

The purpose of this charge is to defray, in part, the cost of installing mains, valves, and fire hydrants which are necessary to provide water service to abutting properties and which have been provided at the expense of the Authority or persons, firms, or corporations other than the applicant. The charge shall be paid prior to the issuance of a plumbing permit from Building Safety and Permits.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

(c) Service Connection Charge

A service connection charge shall be paid by each applicant for each new service connection and meter installation prior to the approval of the application, as follows:

Installation of connection by	Charge
Developer	\$10 per meter inspection fee
Utility	Actual cost times 1.25, including overhead

The purpose of this charge is to defray the cost of installation or inspection of a service connection from the water main in the street to the curb or property line and the installation of a meter either at the curb or property line or within the premise.

(d) Retail Service Charge

Water service shall be based upon a commodity charge for all consumption, as follows:

Residential

	Volume	Charge
First Block	Less than 15,000 gallons per quarter	\$2.85 per 1,000 gallons (\$2.13 per 100 cubic feet)
Second Block	More than 15,000 gallons but less than 30,000 gallons per quarter	\$3.45 per 1,000 gallons (\$2.58 per 100 cubic feet)
Third Block	More than 30,000 gallons per quarter	\$9.80 per 1,000 gallons (\$7.33 per 100 cubic feet)

Nonresidential

Volume	Charge
Per 1,000 gallons	\$3.45
Per 100 cubic feet	\$2.58

The purpose of the retail service charge is to defray all costs of providing water service for domestic, commercial, and industrial uses and for firefighting purposes, including repayment of moneys borrowed to acquire or construct the water system; operation and maintenance; and renewals, replacements and extensions.

3) Exceptions to Local System Facilities Charges

The provisions of Regulations Governing Utility Service, Section 29 above, shall be observed when there is a conflict between Section 29 and the provisions of Sections 32(b) and 32(c) above.

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

4) Billing and Account Charges

The charges on the following pages shall be assessed for any customer billed by the Authority.

(a) Account Charges

An account charge of \$10 (\$20 if the meter is read) shall be paid for each applicant for continuing service, whether for a new account or for a transfer of account, for water and/or wastewater service. The purpose of this charge is to defray the cost incurred in clerical and bookkeeping activities, the turning on of services, and/or meter reading required for each new account or transfer of account.

(b) Transaction Charge for Late Payment

A transaction charge for late payment of 1.5% will be assessed on the balance due once the bill is delinquent and then every 30 days thereafter. The late charge will be added to a bill in the event the bill is not paid within 30 days following the date thereof.

(c) Interest Charge for Late Payments with a Lien

An interest charge for late payment of 8% simple interest on the principal (delinquent amount) due, shall be added to any account when a lien has been placed upon real estate. Such lien on any real estate may be discharged by the payment to the Authority of the total lien amount, penalty, and the interest which has accrued to the date of the payment.

(d) Restoration of Service Charge

Where service has been terminated on account of the nonpayment of any bill, a restoration of service charge of \$30 (\$100 for a single service wastewater customer not on metered water service) shall be paid before service is restored, except as defined in Section 17(A)(2).

The purpose of this charge is to defray the expenses of terminating and restoring services, including clerical and bookkeeping activities.

(e) Meter Test Deposit

A test of a water meter shall be done at the request of a water customer upon payment of a meter test deposit as defined in Regulations Governing Utility Service Section I (1). If the meter is found to be 3% or more fast, then the deposit shall be refunded. If inoperable or 25% or more slow, the deposit shall be credited against a revised billing. The deposit shall be determined by meter size, as set out in the following:

Meter size	Deposit
5/8" to 2"	\$ 30
3" and over	80

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

(f) *Fire Hydrant Charge*

For customer-requested hydrants installed under the provisions of Regulations Governing Utility Service Section 21, there shall be an installation cost of actual cost plus an allowance of 25% for overhead. The applicant shall deposit with the Authority an estimated fee prepared by the Authority, subsequently adjusted at the completion of the installation with costs exceeding the estimate billed or, in case the estimate exceeds the cost, refunded to the applicant.

The purpose of this charge is to assess to the user the cost of installing fire hydrants for the benefit of the applicant.

(g) *Temporary Water Service Charge*

Under the provisions of Section 22, an applicant for temporary service shall pay, upon application, for the estimated costs of installing, replacing, and removing the facilities which are required to furnish such services plus an allowance of 25% for overhead. The applicant shall receive a refund if the estimate exceeds the actual. The applicant shall also pay service charges and all charges caused by a late payment or nonpayment. The applicant may also be required to post a deposit as described in Regulations Governing Utility Service Section 6.

(h) *Fire Connection Detector Check Meter Charge*

Fire connection detector check meters shall be read and billed at least annually or on a more frequent basis, as determined by the Authority. Rates governing normal water usage shall be assessed.

Fire connection detector check meters monitor nonfire flow usage from a fire connection and there should be little or no water activity.

5) Multiple Charges Bills

All charges and fees above are in addition to charges and fees assessed and owed to Newport News Waterworks, HRSD, or any other private or municipal utility.

6) No Free Service

There shall be no utility service provided to any customer without the assessment of service charges.

7) Plan Review Fee

The following page indicates the charges that shall be assessed for the appropriate plan. The purpose of this charge is to defray cost incurred for time used to provide engineer technical review.

Table 16

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

Document	Collection
Rezoning:	
5 acres or less	\$ 100
Greater than 5, but less than 10 acres	150
Greater than 10 acres	200
Special use permits:	
General	200
Family subdivision	50
Wireless communication facilities	50
Other	50
Site plans:	
Administrative review:	
Residential structure (multi-family)	300 plus \$5 per unit
Nonresidential structure	300
Mixed use structure	200 plus \$5 per residential unit
Utility easement plat service	300
Planning commission review:	
Residential structure (multi-family)	300 plus \$5 per unit
Nonresidential structure	300
Mixed use structure	300 plus \$5 per residential unit
Utility easement plat service	300
Amendment to an approved plan:	
Residential structure (multi-family)	150 plus \$2 per unit
Nonresidential structure	150
Mixed use structure	150 plus \$2 per residential unit
Utility easement plat service	150
Each additional review after second resubmission	150
Master plan review:	
Initial review	600
Revision of plan	600
Conceptual plan for water and sewer:	
General	100
Master utility plans and modeling	300
Each additional review after second resubmission	150
Subdivision plan review:	
No public improvements required	75
Public improvements required	300 per plan plus \$5 per lot
Wastewater pumping station	2,000
Well facility	3,000
Each additional review after second resubmission	150

JAMES CITY SERVICE AUTHORITY
(A Component Unit of the County of James City, Virginia)

Rates and Fees

June 30, 2014

8) Inspection

There shall be an inspection fee of \$25 for the third and subsequent inspections for water and sewer service connections. These will include, but are not limited to, water meter box installations, water and sewer service line connections, and grinder pump installations. This charge will be paid prior to the third/or subsequent inspections. The purpose of this fee is to defray the expense of making multiple on-site inspections to correct previously identified deficiencies.

9) Inspection Fee for Water and Sewer Lines

There shall be a fee for the inspection of public water and sewer installations. Such fee shall be \$2.87 per foot for every foot of water main and sewer main constructed and shall be submitted at the time of filing an application for a land disturbance permit.

10) Sub-Meter Account Charge

An account charge of \$18 shall be paid annually by each customer who has established a sub-meter account. The payment for this charge will be prorated in equal amounts in the customer utility service charge billing.

This page intentionally left blank

COMPLIANCE SECTION



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

Board of Directors
James City Service Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ***James City Service Authority*** as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise ***James City Service Authority's*** basic financial statements, and have issued our report thereon dated November 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***James City Service Authority's*** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***James City Service Authority's*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***James City Service Authority's*** internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***James City Service Authority's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 4, 2014